

SECTION V

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Used in Administering Federal Programs



USS Constitution

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Bunker Hill Monument



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Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 14: Excess Indirect Costs Charged not Adjusted in a Timely Manner

The Office of the Comptroller did not credit \$2,469,734 in fiscal year 2005 overcharges to federal programs on a timely basis.

The Office of the Comptroller (Department) is responsible for providing instruction to program MMARS to assess all applicable appropriation accounts for fringe and indirect costs using the approved rates and bases developed and negotiated in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments. The Department is also responsible for performing a reconciliation to ensure fringe and indirect charges in the schedule of expenditures of federal awards are allowable. If any overcharges are noted, the Department is accountable for posting adjustments to eliminate those overcharges. While there were no over recoveries for fringe benefits that needed adjustment for fiscal year 2005, there were over recoveries for indirect costs. The over recoveries were not adjusted on a timely basis. Management believes the federal overcharges will be deducted in fiscal year 2006.

During fiscal year 2005, the Office of the Comptroller charged indirect costs to federal accounts for the Executive Office of Human Services and the Department of Elder Affairs on a provisional basis using either the last approved indirect cost rate or actual amounts from the 2004 departmental cost allocation plan as both agencies were developing new departmental cost plans. The Office planned to reverse the provisional amounts billed since the plans were not approved by the end of the fiscal year. For the Executive Office of Human Services, this resulted in over recoveries of \$22,313 for CFDA # 93.623, Basic Center Grant, \$1,785,462 for CFDA # 93.778, Medical Assistance Program, and \$24,645 for CFDA # 93.779, Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations, which were not adjusted on a timely basis. For the Department of Elder

Affairs, two programs, CFDA # 93.044, Special Programs for the Aging, Title III, Part B. Grants for Supportive Services and Senior Centers, and CFDA # 17.235, Senior Community Service Employment Program had over recoveries of \$253,353 and \$22,996, respectively, which were not adjusted.

The state Department of Education has three approved indirect cost rates which vary depending on the federal award. During the process of programming rates for fiscal year 2005 in the automatic indirect cost chargeback system, the Office assigned some accounts an incorrect rate. The error was not identified and adjusted in a timely manner resulting in over recoveries of \$10,326 for CFDA# 84.298, State Grants for Innovative Programs; \$15,120 for CFDA# 84.336, Teacher Quality Enhancement Grants; and \$36,161 for CFDA# 84.369, Grants for State Assessments and Related Activities. In another instance, one Department of Education account exempt from indirect cost, was charged \$49,820. This resulted in an over recovery for three different programs, CFDA# 84.002, Adult Education State Grant Program, CFDA# 84.367, Improving Teacher Quality State Grants and CFDA# 84.369, Grants for State Assessments and Related Activities. The specific amount for each program could not readily be determined.

The Division of Unemployment Assistance under the Department of Labor and Workforce Development reallocated some charges from federal to non-federal programs at the end of the year. In addition, the indirect cost rate, which was approved mid year was lower than the prior year rate used to provisionally bill federal programs in fiscal year 2005. This resulted in over recoveries of \$40,040 in indirect costs for CFDA # 17.225, Unemployment Insurance, \$127,054 for CFDA# 17.258, Work Investment Act (WIA) Adult Program, and \$31,733 for CFDA# 17.801, Disabled Veterans Outreach Program, which could not be adjusted on a timely basis.

The Office determined for several departments that provide services on behalf of CFDA# 93.563, Child Support Enforcement, which are all accounted for in fund 142, that indirect costs should only be charged at one third of the department's approved indirect cost rate. The adjustment to reduce the share to one-third was not made on a timely basis resulting in a \$37,621 over recovery for that program.

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 14: Excess Indirect Costs Charged not Adjusted in a Timely Manner (Continued)

Contract payments in excess of \$100,000 for the Executive Office of Public Safety are required to be removed from the direct cost base in computing indirect charges. The calculation to identify the excess was not made on a timely basis, which resulted in an over recovery of \$13,090 for the State Domestic Preparedness Equipment Support Program CFDA# 97.004.

The issues for fiscal year 2004 related to posting adjustments for an \$82,606 overcharge for the Improving Teacher Quality-State Grants Program, CFDA# 84.367 and the transfer of \$129,103 in indirect costs from CFDA#93.053, the Title III Nutrition Services Incentive Program to CFDA# 93.044, Special Programs for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers, were resolved during the fiscal year.

The Office implemented a new accounting system during the fiscal year 2005. Due to the level of detail required under the new system, the reconciliation and posting of adjustments to eliminate any fringe and indirect overcharges did not occur until after then end of the fiscal year. As a result, there is a total of \$2,469,734 (\$22,313, \$1,785,462, \$24,645, \$253,353, \$22,996, \$10,326, \$15,120 \$36,161, \$49,820, \$40,040, \$127,054, \$31,733, \$37,621, and \$13,090) in over recovered indirect costs for fiscal year 2005 for these programs. (*Department of Labor - Unemployment Insurance 17.225, Senior Community Service Employment Program 17.235, Work Investment Act (WIA) Adult Program 17.258, Disabled Veterans Outreach Program 17.801; Department of Education- Adult Education State Grant Program 84.002, State Grants for Innovative Programs 84.298, Teacher Quality Enhancement Grants 84.336; Improving Teacher Quality State Grants 84.367, Grants for State Assessments and Related Activities 84.369; Department of Health and Human Services - Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers 93.044, Title III Nutrition Services Incentive Program 93.053, Child Support Enforcement 93.563, Basic Center Grant 93.623, Medical Assistance Program 93.778, Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations 93.779; Department of Homeland Security-State Domestic Preparedness Equipment Support Program 97.004*)

Recommendation

With the implementation of the new accounting and reporting system, the Office of the Comptroller should focus its efforts on performing the year-end reconciliation and post any adjustments on a timely basis to ensure amounts in the schedule of expenditures of federal awards and revenue in the financial statements are properly stated.

Department Corrective Action Plan

A final reconciliation of FY2005 fringe benefit and indirect cost recoveries to approved costs based on rate agreements in effect for FY2005 resulted in all reconciling credits and debits being posted in NewMMARS in BFY2005/AFY2005.

For FY2006, the reconciliation of fringe and indirect recoveries will be performed periodically throughout the fiscal year. The final reconciliation will be completed, and any adjustments posted to accounts, prior to the Single State Audit review.

Responsible Person: Marybeth Shaughnessy-Newell, Director of Accounting
Fred DeMinico, Unit Manager of Accounting
Implementation Date: June 30, 2006

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan

The Office of the Comptroller (Office) included additional costs and excluded other costs in computing the 2005 Statewide Cost Allocation Plan. These costs affected indirect cost rates and departmental cost allocation plans.

The Office is responsible for preparing the Statewide Cost Allocation Plan (Plan). The Plan identifies certain departments known as Central Services Agencies (CSA), which provide administrative services on behalf of other departments. The allowable costs of those CSAs are computed and allocated on a variety of equitable bases to user departments through the Plan. The U.S. Department of Health and Human Services, Division of Cost Allocation (DCA) negotiates and approves the Plan for use. The total of the applicable approved CSA allocations is incorporated in a department's indirect cost rate proposal or cost allocation plan, which are then used to charge federal programs for administrative costs.

Costs as shown in MMARS and allocable to the CSAs in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments were used to prepare the 2005 Plan based on 2003 actual costs. During the audit of the 2005 Plan, the following items were noted:

- For the Division of Capital Planning and Operations Costs fringe benefits of \$1,399,514 were duplicated of which \$196,853 were approved for allocation and salaries were also overstated by \$1,377. In addition, health and welfare costs for the Human Resources Division were overstated by \$4,667. This resulted in an overstatement of \$202,897.
- The approved 2003 square footage rate was not used in the calculation of occupancy costs for the State House, McCormack, and Lindemann buildings. Also, the building use charge for the Lindemann Building was overstated by \$669,471. As a result, there was a net overstatement of \$10,184 in occupancy costs for all central service agencies.
- Depreciation for information technology relating to the Operational Services Division was not deducted thereby understating the costs by \$882,223.
- Reimbursements for two different CSAs (the Attorney General's Office and Human Resources Department) were deducted before computing the first allocation of costs to departmental functions. Since the first allocation was used as a basis for allocating the costs from other CSAs, this had the effect of distorting the allocations towards functions which did not have any reimbursements.

The exact impact on federal programs for these total overstatements can only be determined when the CSAs are adjusted and the revised allocations are used to recompute department indirect cost rates or cost allocation plans.

The Office of the Attorney General is not only a CSA in the Plan for some of its functions but it also administers federal awards. The Office of the Comptroller assists the Office of the Attorney General in preparing an indirect cost rate (Rate) to charge federal awards. During a comparison of the amounts used in the 2005 Plan with the Office of the Attorney General's indirect cost rate, it was noted that \$16,727 was included both in the Plan and also in the Rate. The amount should only have been included in the Plan.

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan (Continued)

The following issues relating to the 2003 and 2004 Plans remain unresolved:

- A rate of \$9 instead of the approved rate of \$8 was used to compute the costs for health and welfare benefits paid on behalf of employees for all CSAs except the Office of the State Treasurer resulting in an overstatement of \$27,484 in the 2003 Plan. Adjustments were made in the 2005 Plan for all CSAs except \$5,866 for the Human Resources Division. In addition, the \$1,000 overstatement of health and welfare costs applicable to the Division of Capital Planning and Operations in the 2004 Plan has not been adjusted. As a result, \$6,866 remains unresolved.
- Some costs were distributed between allowable and unallowable functions within CSAs using an apportionment formula rather than specific identification of costs for those activities. In the 2004 Plan, the use of an apportionment formula resulted in a \$10,766 overstatement of costs for an unallowable function in the Office of the State Treasurer and Receiver General. This effected the subsequent allocations between allowable and unallowable functions.

Other issues relating to the 2003 and 2004 Plans were resolved:

- The direct-billed single audit costs of \$517,000 from the 2004 and \$525,000 from the 2003 Plans were deducted from allocated costs of the Office of the Comptroller.
- The 2003 Plan's duplicate costs of \$529,937 for information technology relating to processing the payroll was adjusted in the fiscal year 2005 Plan.
- The formula for adding payroll cost for the Office of the Comptroller in the 2003 Plan included a figure twice resulting in \$9,711 of additional costs being claimed. The additional costs claimed of \$9,711 were adjusted in the fiscal year 2005 Plan.
- Medicare costs of \$30,020 relating to the central service administrative pool for the Executive Office for Administration and Finance included in the 2003 Plan was adjusted in the fiscal year 2005 Plan.
- The Office has decided not to offset understatements of total costs. As a result, \$40,000, \$6,563, and \$3,437 relating to the 2003 Plan, \$84,474 in costs applicable to the Attorney General's Office and \$88,837 omitted from cross allocations between CSAs in 2004 Plan will not be adjusted.
- All reimbursements, such as federal reimbursements for the Medicaid Fraud Control Unit in the Attorney General's Office (Office) could be verified.

(Unknown Federal Programs)

Recommendation

The Office of the Comptroller should continue to carefully review all Statewide Cost Allocation Plans to ensure costs are complete, accurate, and based on approved agreements for the proper fiscal period prior to submission. The Office should also determine whether the overstatement in the Bureau of State Building rates, impact any indirect cost rates or plans. Finally, the methodology used to prepare the Attorney General's indirect cost rate should be revised to exclude costs allocated in the Statewide Cost Allocation Plan.

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan (Continued)

Department Corrective Action Plan

Of the total disallowed costs identified in this finding, a significant portion of these costs was allocated to functions that are not further allocated to departments. For example, of the \$1,399,514 in duplicated fringe benefit cost attributable to DCP administrative salaries, 49% or \$685,762 was allocated to departments under the Federally approved schedule of allocated costs. The balance of these disallowed costs were allocated to DCP's unallocable functions and were not made part this schedule.

Similarly, the effect of overstating \$16,727 in administrative costs under the AGO FY2005 indirect cost rate, was negated due to the fact that the rate, though approved through July, 2004, was not implemented until November, 2004 (Period 05, FY2005). Indirect recoveries up to that time were assessed at the last approved FY2004 rate which was lower than the approved FY2005 rate. Annual FY2005 recoveries at these different rates were less than the annual recovery from a revised rate that excludes the overstated costs.

The finding requires a more thorough review of the final draft of the SWCAP to ensure that the costs and the formulas that drive the summary schedule of allocated costs are accurate and documented before this document is submitted to the Federal cognizant agency for their review.

Responsible Person: Marybeth Shaughnessy-Newell, Director of Accounting
Fred DeMinico, Unit Manager of Accounting
Implementation Date: June 30, 2006

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 16: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement

The Office of the Comptroller (Office) needs to continue to improve the documentation it prepares to support those sections of the Statewide Cost Allocation Agreement for which it has responsibility.

One unit within the Office is responsible for negotiating the Statewide Cost Allocation Agreement (Agreement), which is negotiated with U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). Section I of the Agreement, identifies and allocates the allowable costs of Central Service Agencies (CSA) to user departments. In preparation for Section I negotiations, the Office prepares and submits a Statewide Cost Allocation Plan (Plan) which is certified as complying with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (Circular) by the Deputy Comptroller. Section II of the Agreement, lists those fringe benefits and other services that are directly billed to user departments.

Although improvements have been made in documenting Sections I and II of the Plan prepared by the Office, the following issues were noted, which were noted during the review of the fiscal year 2004 Plan:

- For two of the nine CSAs, the Schedule of Costs to be Allocated by Function did not readily tie to the computation of the rollforward adjustment. The rollforward adjustment is one of the bases for Schedule A, the Approved Fixed Central Service Allocations, as agreed to with the DCA. Intermediary calculations for the Human Resources Division and the Office of the State Treasurer, showing which CSA functions were not allocated, were not prepared.
- The written methodology was not sufficiently detailed to provide a step-by-step instruction on constructing the Plan and identifying areas that may need to be adjusted when changes occur within CSAs. The methodology was copied from the previous year without determining whether it was appropriate. In addition, queries are currently being used to extract information from the accounting system as a basis for preparing the Plan. A step-by-step methodology including the format for those queries would strengthen internal control over Plan's preparation.

Many issues identified in the 2004 were not repeated in the 2005 Plan:

- A reconciliation was prepared between all appropriation and revenue accounts for the central services agencies, which support the certified financial statements, and the amounts that were ultimately used in the Plan.
- The inclusion or exclusion of costs, such as depreciation, was consistent throughout the CSAs.
- There were no variances between the Plan submitted to DCA and the total allocation amounts in the electronic working papers supporting the Plan.
- The Office prepared the Section II documentation requested by DCA.

The exact impact on Federal programs for these items could not be determined. The Office has stated it plans to perform a complete review of the fiscal year 2006 Plan and revise their procedures where necessary. (*Unknown Federal Programs*)

Office of the Comptroller

Findings on Compliance with Rules and Regulations

Finding Number 16: Documentation Supporting the Statewide Cost Allocation Plan Needs Improvement (Continued)

Recommendation

The Office of the Comptroller should continue its efforts to reconcile between the Schedule of Costs to Be Allocated and the Approved Fixed Central Service Allocations. Any CSA function that is not included in the final allocation should be indicated. In addition, the written methodology should describe the queries necessary to identify the total costs and revenues for all CSAs and what areas should be considered in the future thereby providing guidance when changes occur within central service agencies.

Department Corrective Action Plan

An updated methodology for the FY2006 SWCAP will identify the CIW queries that are used to develop information for the SWCAP as well as the data and tables that this information is taken from.

Additionally, any intermediary schedules between the determination of allocable costs and the costs presented in any of the summary schedules will be prepared for audit review.

Responsible Person: Marybeth Shaughnessy-Newell, Director of Accounting
Fred Dominico, Unit Manager of Accounting
Implementation Date: June 30, 2006

Office of the Comptroller

Findings not Repeated from Prior Years

1. The Department of Education and the Department Elder Affairs had credits for grants processed subsequent to FY2004 due to the closure of activity in “Old” MMARS and the timing of conversion to the new MMARS accounting system. The Department continues to review these activities as part of the monthly and year end reconciliation processes and post any necessary adjustments in a timely manner. (*Fiscal Year 2004 Single Audit Finding 15*)
2. The FY2004 Plan, which was the plan under audit for FY04, was submitted to the Federal Cognizant Agency in advance of the FY2003 Single Audit findings publication. In regard to 2004 Single Audit Finding 16, all adjustments required were made with the submission of the following year’s plan. (*Fiscal Year 2004 Single Audit Finding 16*)

Department of Education Background

The Department of Education (Department) is the state agency responsible for administering the laws and regulations pertaining to elementary and secondary education, for distributing state and federal funds to local educational agencies, and for improving the quality of education for all public school students in the Commonwealth. The primary responsibility for the operation of schools rests with local and regional school committees. The Department carries out its mandate by providing assistance and funds to the schools, by setting standards, by administering regulations, and by collecting data on the condition of education.

During FY2005, the Department administered approximately \$3.8 billion of state funds, and approximately \$850million of federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 17: Payroll Adjustments Could not be Made

The Department of Education (Department) could not adjust the costs charged to federal programs to reflect the actual cost of salaries of employees who work on multiple programs. The Commonwealth of Massachusetts implemented a new general ledger system (MMARS) on July 1, 2004 and the entries that the Department relied on to adjust payroll charges could not be processed in the system. The Department continues to work closely with the Commonwealth's general ledger team to identify procedures that will accomplish the needed adjustments. OMB Circular A-87, Attachment B (h) (6) (e) states that "budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

The Department completed the reconciliation of actual payroll developed based on the personnel activity reports submitted and the charges made to the general ledger based on budget on a quarterly basis for the first three quarters of the fiscal year. Historically the payroll could be adjusted in the general ledger each quarter and the Department believed that the same adjustment mechanism would be available to them in the new system. However, the same mechanism could not be used and work is underway to determine the mechanism for adjustments in the new system. The process was further complicated by an upgrade to MMARS in May 2005. At the end of the third quarter the payroll charges to Title I were overstated by \$46,700 and for Special Education by \$33,552. These costs are not questioned due to the fact that the grant period is 27 months and it is anticipated that the proper adjustments will be processed before the end of the grant. (*Department of Education - Title I Grants to Local Education Agencies 84.010 and Special Education 84.027*)

Recommendation

The Department should continue to work with the MMARS team to determine how to make the needed adjustments.

Department Corrective Action Plan

As mentioned by the auditors, this finding was the result of the Department's being unable to fully process the quarterly Federal Time & Attendance payroll adjustments. Although the Department attempted to process these corrections, updates to the Commonwealth's Labor Cost Management system (LCM) and General Ledger system (MMARS) would not accept the adjustment transactions necessary to complete this process. These functions worked in prior fiscal years. The Department (as acknowledged by the auditors) has completed every step that we had control over.

We have worked with staff from the Massachusetts Office of the Comptroller since October of 2004 to try and correct this issue. While they have tried to fix the problem or find other ways to address the shortcomings of LCM and MMARS on this subject, nothing has repeatedly worked to this point. This was a resolved issue in the past audit and would not be listed here except that the updated statewide system does not properly handle the adjusting entries that the predecessor system did. We will continue to work with the Office of the Comptroller to correct the inadequacy in their statewide system so that we can completely process the salary entries needed to adjust our accounts.

Responsible Person: Anthony DeLorenzo
Implementation Date: June 30, 2006

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 18: Vocational Education Program Maintenance of Effort Requirements not Met

The Department of Education (Department) did not meet the maintenance of effort requirements for the Vocational Education Program. According to federal regulation 20 USC 2391, a state must maintain its fiscal effort in the preceding year from State sources for vocational and technical education on either an aggregate or a per student basis when compared with such effort in the second preceding year.

For the fiscal year 2005 Vocational Education grant, the fiscal year 2004 fiscal effort is compared to the 2003 effort. The Department missed the aggregate effort by \$18,068,051 (\$235,348,379 versus \$217,280,328) and the per pupil effort by \$581 (\$6,558 versus \$5,977).

The Commonwealth of Massachusetts, like most states, is having financial problems and as such did not have the funds available as in prior years to provide for the Vocational Education Program. (*Department of Education – Vocational Education, Basic Grants to States 84.048; Fiscal Year 2003; 2004 Single Audit Finding 20*)

Recommendation

The Department should continue to work with state Administration and Finance officials to seek the funding necessary to meet federal requirements.

Department Corrective Action Plan

This finding cites the Massachusetts Department of Education for failing to meet the maintenance of effort requirement for the administration of the Vocational Education Program.

This situation occurred due to the dramatic reduction in state revenues in Fiscal Years 2002 - 2004 resulting from the post September 11, 2001 economic downturn. The Commonwealth of Massachusetts along with most states across this nation had to make major program cuts to balance their budgets. The Department had smaller reductions than a majority of state departments, but had reductions nonetheless.

Additionally, the Department took the proactive step of requesting a waiver from the maintenance of effort requirement for the period of FY2003/FY2004. Knowing that FY2004 education budget appropriations would be further reduced. United States Department of Education (“US ED”) never issued a final response.

The maintenance of effort requirement will be resolved with the Commonwealth’s FY2005 Budget appropriations for K – 12 education programs. The Department of Education’s budget increased by \$199 million from FY2004.

Responsible Person: Anthony DeLorenzo

Implementation Date: October 1, 2005

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 19: Subrecipient Monitoring Could be Improved

The Department of Education's ("Department") subrecipient monitoring procedures need to be improved by the more timely collection of OMB Circular A-133 audit reports and better knowledge and documentation of all monitoring activities conducted at the Local Education Agencies (LEA).

Of thirteen LEAs selected for testing, ten did not submit the 2004 audits required under OMB Circular A -133 when due. Six of the late reports were submitted prior to the completion of audit fieldwork and were tested. One was received after the fieldwork and was not tested. In summary, four had not submitted the reports due March 30, 2005 as of mid-September. The thirteen selected for testing are the largest recipients of federal awards and account for 20-48% of each of the major program grant awards. LEAs in the Commonwealth have fiscal year-ends of June 30. Under the requirements of OMB Circular A -133 Section .320 "audits shall be completed and the data collection form submitted within the earlier of 30 days after the receipt of the auditors report, or nine months after the end of the audit period, which ever is earlier." The due date for the LEAs' fiscal year 2004 reports therefore is no later than March 30, 2005.

Department officials explained that they prompt LEAs via letters and emails to have audits conducted and reports submitted as required by federal regulations. Our audit disclosed that the letters and emails are sent out to the LEAs after the reports are due, sometimes as much as two and a half months after the reports are due. Additionally, the letters and emails are generic in nature and make no distinction between those with findings and those with none, or those LEAs that are habitually late versus those that are late one time. They also explained that they are reluctant to force compliance via sanctions.

Of the four that remain outstanding, one had not submitted reports for the years 2002, 2003 or 2004, and there was no documentation in the file of other monitoring activities that had been performed at this LEA to ensure the protection of federal funds. A review of the Department's web site, which contains copies of the reports issued as a result of any monitoring activities that have been performed at LEAs, disclosed two such reports for this LEA in question. One issued by the Department concluded that the entity met most of the requirements. The second was prepared by an independent entity: The Commonwealth of Massachusetts Educational Management Audit Council and Office of Educational Quality and Accountability. This report issued on March 27, 2003 indicated that many areas were found to be either unsatisfactory or poor. Officials in the Department's Audit and Compliance Unit which are responsible for the collection of A-133 audits were unaware of the report. They had stated that the reason for the late reports was "GASB 34 Issues" and not educational or financial issues.

The files also did not include documentation that any other Department required reports were reviewed to help determine if the Department needed to take any action. The file of one LEA that had not submitted its audit report for 2004 had a notation that a waiver had been received. The Department determined that 40 of 462 subrecipients had not submitted 2004 reports as of mid-September. No data was provided on how many LEAs have multiple years outstanding, in addition to the one discussed above.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations Section .200 requires that "non-federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part." Section .320 sets forth the Report submission (see above). Section .400 (d) sets forth the Pass-through entity responsibilities including (4) "Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Section .225 Sanctions states "No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In case of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate actions using sanctions such as: (a)

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 19: Subrecipient Monitoring Could be Improved (Continued)

Withholding a percentage of Federal awards until the audit is completed satisfactorily, (b) Withholding or disallowing overhead costs; (c) Suspending Federal awards until the audit is conducted; or (d) terminating the Federal award."

Timeliness is an important component of the audit requirement. OMB has reduced the time frame from 13 to nine months in recent years. Single Audits are meant to alert pass-through entities to conditions at the LEAs that put the federal grants at risk. Failure to act in a timely manner can increase the risk to federal funds. (*Department of Education - Title I Grants to Local Education Agencies 84.010; Special Education 84.027; and Improving Teacher Quality State Grants 84.367; Department of Agriculture - National School Lunch Program 10.555*)

Recommendation

The Department should enhance its efforts to get the LEAs to submit their audit reports within the timeframe set by federal regulation. The Department should consider sending letters to the LEAs prior to the date the reports are due as a reminder to the LEAs of the deadline. Additionally, the Department letters and emails to the LEAs should be more individualized to specifically address whatever issue each LEA is facing. For those LEAs that are continually non-compliant, the Department should consider sanctions, such as withholding audit costs, as authorized by OMB Circular A-133.

The Department should also establish policies and procedures that require the Audit and Compliance Unit to coordinate its efforts with other Commonwealth departments that conduct monitoring activities at the LEAs and/or receive audit reports.

Department Corrective Action Plan

We concur that our responsibilities include educating the sub recipient's on their audit requirements and make every reasonable effort to collect their reports in a timely manner. We do this. We have written procedures in place and have informal agreements with other state departments to pool our information regarding the sub recipients.

A number of cities and towns are continuously late in issuing their reports. Some of this is due to the city's fiscal staff and some is due to their audit firms. In a number of these cities we find when the report comes in there are no findings relating to our funds. The suggestion that using the sanction threat of withholding education funds to entice their timeliness would probably have limited success at best in improving their reporting. We also have a theoretical problem regarding withholding education funds when there is no direct correlation to the lateness of the reports and the educational programs. We have sanctioned individual programs when they have been in direct violation of our program or fiscal reporting requirements.

The issue that the pass through entity must ensure that the sub recipient's audit is issued by the due date is questionable. Our correspondence with the US ED audit review staff noted that the Federal agency is responsible for ensuring that audits are completed and timely (see Subpart D, --.400(c)) which states:

The Federal awarding agency shall perform the following for the Federal awards it makes:...(3)Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part....

We received written opinions from the US ED and the United States Department of health and Human Services audit review staffs along with an oral opinion from the Rhode Island Auditor General that confirmed our opinion that any sanctions in these instances are at our discretion. We did not inquire to the Massachusetts State Auditor's Office, as they are a partner in conducting our Single Audit and didn't want to invoke an independence question.

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 19: Subrecipient Monitoring Could be Improved (Continued)

Department Corrective Action Plan (Continued)

To address the issues raised in this finding we will ensure that we will improve our documentation of our current work with the Department of Revenue and others to get copies of these reports. We will also step up the current system of our collection letters and other communication with the sub recipients

Responsible Person: David LeBlanc
Implementation Date: January 1, 2006

Department of Education Findings on Compliance with Rules Regulations

Finding Number 20: Measurement of Local Education Agency Cash Advances Needs Improvement

The Department of Education (Department) does not monitor Local Educational Agency (LEA) cash balances to ensure that they minimize the time elapsing between the transfer of funds from the Department and disbursement by the LEA.

For Title I, the balance of cash on hand at LEAs at the end of State Grant Year 2004, as reported by the LEAs at August 31, 2004 was \$19,806,399 or 12% of the total annual federal award. While there is a provision for grant carryover of up to 15% from year to year the carryover provision is for the "period of availability" of the grant funds not a waiver of the cash management principles.

For all pass-through federal grants greater than \$25,000, the long time practice of the Department has been to provide the LEAs with cash in quarterly allotments, upon request by the LEA, supported by expenditures to date and an estimate of future expenditures. For grants that do not include carryover provisions unspent funds are to be returned with the Final Report of grant activity through August 31 each year. The report is due in October. For grants with carryover provisions there is no requirement to return unspent funds. The cash is maintained at the subrecipient level.

Treasury regulations 31 CFR Part 205 require that subrecipients "conform substantially to the same standards of timing and amount as apply to the pass-through entity" and the Commonwealth draws the U.S. Department of Education (US DOE) Grants as reimbursements rather than advances. USDOE regulation 34 CFR Section 80.21 (b) requires that "procedures for payments shall minimize the time elapsing between the transfer of funds and disbursement by grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205." The Department cites historical precedence as supporting evidence for the practice of LEA drawdowns in quarterly allotments for all Department grants greater than \$25,000. It is unclear how the Department's procedures meet the federal requirements. The LEAs have been provided with written procedures, Request for Funds Process, that state: "The initial payment is the only one that is sent to recipients automatically. To ensure that funds are distributed on an "as needed" basis in accordance with both state and federal management requirements, the balance of funds must be requested according to the above schedule." That schedule is "Payments distributed in quarterly allotments on request" for grant awards over \$25,000. The Department feels that if there were excess cash on hand at the LEA level the single audit reports would include cash management findings. This logic may not necessarily be true because the LEA auditors would be using the Department's written procedures to the LEA as criteria to judge noncompliance.

Cash on hand that exceeds the short term needs of the program is subject to misuse. The Department's failure to comply with Treasury and U. S. Department of Education regulations could lead to sanctions or loss of funding. (*Department of Education - Title I Grants to Local Educational Agencies 84.010; Special Education 84.027; and Improving Teacher Quality State Grants 84.367; Fiscal Year 2004 Single Audit Finding 21*)

Recommendation

The Department should implement a system of cash management that complies with the federal regulations. If the federal grantor has officially approved a system of cash management other than those generally applicable to all grants, the Department should document that approval.

Department of Education

Findings on Compliance with Rules Regulations

Finding Number 20: Measurement of Local Education Agency Cash Advances Needs Improvement (Continued)

Department Corrective Action Plan

The Department's system of grant advances and payments has been in place for over fifteen (15) years. With the exception of the first payment, which is $\frac{1}{4}$ of the total amount when the grant is approved, the remaining grant is disbursed on request based on an expenditure reporting by the LEA. US ED has observed this system in numerous audits and reviews without question to its appropriateness, including during the CAROI process in 2001.

We will ask for a direct opinion from US ED as to the adequacy of the system and will adjust wherever feasible based on their comments and suggestions. Funding of an updated or new system is not available in the current budget.

Responsible Person: Ronald Honesty / Barbara Solomon
Implementation Date: June 30, 2006

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 21: Failure to Take Action on Subrecipient Questioned Costs of \$1,827,972

The Department of Education (Department) did not take action on material questioned costs disclosed in a subrecipient's A-133 Audit Report. The Management Decision Letter was issued in a timely manner but it failed to address the questioned costs of \$1,449,480 for Title I and \$378,492 for Special Education.

The Local Education Agency's (LEA or subrecipient) auditor reported that the salaries charged to the grants were not adequately supported in accordance with the requirements of OMB Circular A-87. The Department did not take any follow-up action on the finding, nor did the Department document any consideration of adjustments to the Department's books and records as required by OMB Circular A-133 Part D Section .400 (d) (6) "Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records." It was noted that none of the Management Decision Letters that were selected for review varied from standard language when addressing financial and administrative findings. All encouraged the completion of the corrective action plan and expressed hope that future audits would show that action had been completed. There were other LEAs with questioned costs noted in the auditor's reports that seemed of amounts large enough to consider either recovery from the subrecipient or adjustment to the Department's books and records. The one cited above is the only one that exceeded \$1 million. These costs are questioned.

Pass-through entities are given responsibility for the federal funds that flow to the subrecipients. OMB Circular A-133 sets them forth clearly. The U.S. Department of Education also has regulations setting forth the administrative requirements. When the pass-through entity does not monitor subrecipients and does not seek recovery of federal funds, the subrecipients may take it as permission to take administrative short cuts or even to misspend federal funds. The Department is at risk for the funds that are found to be misspent by subrecipients and State funds would have been used to return federal funds due to misspending at the LEA level. Without investigation it is not possible for the Department to know if the findings at the LEAs are the result of a "lack of proper paper work" or the result of misspending. (*Department of Education - Title I Grants to Local Education Agencies 84.010 and Special Education 84.027*)

Recommendation

The Department must implement policies and procedures that adequately address the federal requirements for monitoring of subrecipients and protection of federal funds. Priority should be given to actions to be taken and sanctions to be levied for LEAs with single audit findings.

Department Corrective Action Plan

In this instance the LEA's auditor questioned the entire salary amounts purely since they couldn't directly identify a particular instance and had to cite a value. No one involved in the discussion expects that this entire amount will be requested to be returned. We have requested that the LEA perform an analysis of the funds in question.

This instance involved an audit report that was received late during the fieldwork of our Single Audit. It was pushed it to the front of the line for processing. Even though there were notes in our files highlighting our discussions with the LEA and their auditor, in hindsight we should have had more detailed and a different structure in our management decision letter. We will revisit our procedures for the issuance of these letters and our reviews of audit findings.

Responsible Person: David LeBlanc
Implementation Date: January 1, 2006

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 22: Inadequate Administrative Expenditures Procedures

The Department of Education (Department) does not have adequate procedures in place to prevent unallowable charges to federal grants.

Nineteen administrative expenditures were tested from four major federal programs. Two of the five, although allowable for charging to the Title I federal program, were not properly encumbered prior to the purchase of goods and services. The remaining three were charged to federal programs in a manner that did not conform to the allocability provisions of OMB Circular A -87.

The lack of proper, prior encumbrances relates to conferences that were held for educators. The original encumbrance was not entered into the system until the day after the conference took place. It is possible that the implementation of a new accounting system, MMARS, caused difficulty with the data entry. For one of the two, the original encumbrance was insufficient in amount for the costs that were incurred. As a result, when the invoice was presented for payment, the encumbrance needed to be increased by an amount that was more than 30% of the original encumbrance. The Commonwealth of Massachusetts, Office of the Comptroller, Expenditure Classification Handbook states "a department cannot authorize performance to begin on a contract or amendment, or request or accept services, or goods, or other obligations in excess of approved appropriations and allotments or other legally available funds. Evidence of sufficient funding for most contracts is an approved encumbrance in MMARS fully supporting the contract maximum obligation or anticipated expenditure." The Department's policies and procedures also require that a requisition be approved and an encumbrance entered into the system prior to the acceptance of goods or services. Conferences held without encumbrances in place has been the subject of prior year findings.

Three of the expenditures selected for testing related to the Virtual Education System (VES). VES does benefit both Title I and Title II, as well as other state and federal programs, but the charges to the program were not determined based on relative benefit or other cost principles. The charges were made based on which grants had the funds available. OMB Circular A-87, Cost Principles for State, Local and Indian Tribe Governments, Attachment A, Section C, states "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Title I was charged \$9,212.12 and Title II was charged \$6,361.76. (*Department of Education – Title I Grants to Local Education Agencies 84.010 and Improving Teacher Quality State Grants 84.367; Fiscal Year 2001; 2004 Single Audit Finding 18*)

Recommendation

The Department must implement and enforce policies and procedures that provide assurance that state and federal procurement laws and cost principles are adhered to.

Department Corrective Action Plan

While the conference encumbrances had slight problems they were valid expenses to the program. Regarding the lateness of encumbrances, these amounts were validated in the Department's procurement office prior to the events. System constraints of the new statewide accounting system prevented their being encumbered in a timely manner. Staff has been instructed to review all costs involved in hosting events prior to finalizing these costs.

The payments for the Virtual Education System (VES) should have been allocated in another manner. Time and attendance changes have already been made for contractors to properly cost out the expenditures to the programs that benefit. We will work to ensure that state and federal procurement laws and cost principles are followed.

Responsible Person: Anthony DeLorenzo
Implementation Date: November 30, 2005

Department of Education

Findings not Repeated from Prior Years

1. The Department of Education does not have an approved cost allocation plan in place to properly charge and classify the administrative expenditures necessary to manage its federal and state programs. An approved cost allocation plan was in place during FY2005. (*Fiscal Year 2004 Single Audit Finding 19*)
2. The Department of Education did not follow the procedure established by the Grants Management Unit for the issuance of a grant payment to a Local Education Agency. All grant payments issued during 2004 following the procedures established by the Grants Management Unit. (*Fiscal Year 2004 Single Audit Finding 22*)
3. The Department of Education has worked diligently to implement the changes required in the Title I program as a result of the amendment by the No Child Left Behind Act of 2001. The Department has complied with the U.S. Department of Education regulatory requirements and accordingly has revised their workbook. (*Fiscal Year 2004 Single Audit Finding 23*)

Department of Elder Affairs Background

The Department of Elder Affairs was established by Section 2 of Chapter 6A of the Massachusetts General Laws. Its responsibilities include the administration and oversight of various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Department is to promote dignity, independence and rights for Massachusetts's elders and to support their families through advocacy and the development and management of programs and services.

The Department's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders including case management and in-home services through the Home Care Program, nutrition, ombudsman services for residents of long term care facilities and assisted living residences and for recipients of services in the community, protective services and a variety of supportive and informational services including transportation, legal services, health benefits counseling, information and referral and senior center programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Department is responsible for certifying over 160 Assisted Living Residences and administering Prescription Advantage, the nation's first state sponsored prescription drug insurance plan for seniors age 65 and older and low-income disabled adults. Elder Affairs' programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging that operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging and 290 senior and drop-in centers.

In fiscal year 2005, the Department administered approximately \$2 billion, with federal grant funds totaling approximately \$35 million.

The Department's major program is the Cluster of:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.044	Special Programs For The Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs For The Aging-Title III, Part C-Nutrition Services
93.053	Nutrition Services Incentive Program

Department of Elder Affairs

Findings on Compliance with Rules and Regulations

Finding Number 23: Supporting Documentation for Monitoring Payment to Area Agencies Needs to be Improved

The fiscal year 2002 single audit noted that the Department of Elder Affairs (Department) was paying Area Agencies on Aging (AAA) for program expenditures without sufficient supporting documentation. In response to this finding the Department implemented a requirement that each of the 23 AAAs submit a spreadsheet detailing the support for the payment on a monthly basis. The Title III Programs Administration Unit is responsible for performing desk reviews of these standard invoicing requirements (including a detailed review of one month's invoice for each AAA). During 2005 the Department reorganized and the detailed review was only performed for only one of the twenty-three (23) AAAs. This is not in accordance with the Department's monitoring procedures, to ensure that federal funds are properly documented.

The Department passes Title III federal funds through to AAAs for programs including elderly nutrition and supportive services. OMB Circular A-133 §400(d) lists one of the responsibilities of pass-he

"Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved."

In addition to federal regulations, the Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook Chapter 5 Contract Execution and Management: Monitoring and Evaluating Contractor Performance and Compliance states in part:

"The contractor shall be required to provide relevant supporting documentation to substantiate any claim for payment of an invoice or to support payments already made by the department."

(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; and Nutrition Services Incentive Program 93.053)

Recommendation

The Department should ensure that its current monitoring requirements are fully implemented, including the invoice reviews for all AAA to evaluate and assess the AAAs' performance and record keeping for program quality and effectiveness.

Department Corrective Action Plan

Elder Affairs concurs that it should ensure sufficient monitoring of sub-recipients. During FY05, Elder Affairs developed a plan for implementing random audits of monthly invoices (to include all sub-recipients receipts, etc) and successfully completed a single audit. Unfortunately, due to a loss of staffing resources to retirement and injury, the minimal staffing that remained were redeployed to handle monthly invoice review and payment.

Plan: Develop internal control procedures for desk and site audits. Procedures will include Documenting audit findings and associated corrective action steps and timetables. Implement a single audit of each AAA during FY06 and annually thereafter.

Responsible Person: Neil Petrocelli
Implementation Date: December 1, 2005

Department of Elder Affairs

Findings on Compliance with Rules and Regulations

Finding Number 24: Fiscal Year 2004/2005 Cost Allocation Plan not Finalized

The Department of Elder Affairs (Department) did not complete the 2004 and/or 2005 indirect cost allocation plan because the Department is evaluating a change in its cost allocation methodology. Rather, it applied the provisional rate of 21% to its federal grants during fiscal year 2004 and 2005.

The provisional rate of 21% charged to the federal grants in fiscal year 2004 was in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

"Commencing with State Fiscal Year 1993, indirect cost rates may be used as a budgetary tool in establishing grant or contract amounts. Nevertheless, only actual indirect costs can be charged to Federal grants and contracts in accordance with cost accounting procedures approved by the Office of Cost Determination...."

The agreement stipulates that the Department may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The Department and the Commonwealth, however, have continued to take a more conservative approach by applying the 21% rate during the past two fiscal years. The Agreement also states that only actual indirect costs can be charged to federal grants and contracts. The Department is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Departmental Cost Allocation Plan. The actual rate should be compared with the provisional rate used to bill federal programs and any recoveries must be credited against the applicable federal program or additional costs may be charged. Based on the cost allocation plans developed and used for the years 1999 – 2003, the Department undercharged federal grant by using the 21%. (*Department of Labor - Senior Community Service Employment Program 17.235; Department of Health and Human Services - Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title IV – and Title II Discretionary Projects 93.048; Nutrition Services Incentive Program 93.053; Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations 93.779; Maternal and Child Health Services Block Grants to States 93.994; Fiscal Year 2004 Single Audit Finding 40*)

Recommendation

The Office should also ensure completion and submission of its fiscal year 2004/2005 plan and record indirect costs based on actual allocation.

Department Corrective Action Plan

Elder Affairs completed and submitted a Departmental Cost Allocation Plan to the Office of The State Comptroller on February 18, 2005. The submission employed the same methodology as that applied in 2003. At the same time, Elder Affairs initiated a project with Public Consulting Group, Inc. to complete development of a revised DCAP methodology. This methodology was developed in conjunction with the Commonwealth Executive Office of Health and Human Services (EOHHS) CAP methodology for FY06. This methodology distributes EOHHS cost to Elder Affairs, based on a number of assumptions that could not reasonably be applied to FY05 at that time. As a result, Elder Affairs has contacted the Comptroller's Office and has requested assistance in applying the methodology correctly – based on FY05 actual expenditures.

Elder Affairs has produced and submitted the 2006 DCAP to the federal Department of Health and Human Services on September 30, 2005. Further, Elder Affairs expects to continue submission following the same process, with assistance from PCG in the next fiscal year and beyond.

Responsible Person: Martin Baker

Implementation Date: Plan submitted, waiting approval

Department of Elder Affairs

Findings on Compliance with Rules and Regulations

Finding Number 25: Monitoring of Audit Findings Relating to Area Agency on Aging Needs Improvement

As indicated in prior years, the Department of Elder Affairs (Department) has not issued timely management decisions on Title III audit findings. During 2005 three Area Agency on Aging (AAA) audit reports noted audit findings. The Office could not provide documentation of management's follow-up of these three audit reports.

OMB Circular A-133, Compliance Supplement Part 3 states that: "A pass through entity should ensure that subrecipient audits are completed within nine months of the end of the subrecipient's audit period, and should issue a management decision on audit findings within six months after receipt of the subrecipient's audit report. It should also ensure that subrecipient take timely and appropriate corrective action on all audit findings."

In response to the prior year finding, the Department officials indicated it would be included in a centralized provider/subrecipient audit review and tracking process that EOHHS was scheduled to implement in January 2005. The centralized process at the time of our fieldwork had not been implemented. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045; and Nutrition Services Incentive Program 93.053; Fiscal Year 2003; 2004 Single Audit Finding 42*)

Recommendation

Until the centralized process is implemented, the Department needs to ensure that policies and procedures relating to AAA audit findings are being fully implemented through the proper review and supervision of the personnel responsible, including the timely review of management decision and the AAA's corrective action.

Department Corrective Action Plan

As indicated in the initial response to this item, Elder Affairs did expect to take advantage of the centralized provider/sub recipient audit review and tracking process that EOHHS was scheduled to implement in January 2005. Unfortunately, this group was not formally established until August 2005. Elder Affairs did conduct an internal review of the 2004 UFR's, but created no formal follow-up action. UFR review is expected to be an element of EOHHS's centralized provider/sub recipient audit review and tracking process system.

Plan: Elder Affairs will formalize its management protocol for reviewing UFR's, and incorporate them into its Internal Control Manual. UFR's are reviewed electronically, and downloaded if issues are identified. Standardized corrective action steps and timetables will be developed for identified deficiencies.

Responsible Person: Neil Petrocelli
Implementation Date: December 1, 2005

Department of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 26: Lack of Documentation to Support Payroll Charges to Federal Awards

During the prior audit, the Department of Elder Affairs (Department) could not find the personnel file for one of three payroll selections tested and as a result could not provide appropriate documentation to support these payroll charges to the federal awards.

OMB Circular A-87, Attachment A, Part C, Section 1, Factors affecting allowability of costs states that:
“To be allowable under Federal awards, costs must meet the following general criteria...be adequately documented”

Department officials stated that the Department properly maintains personnel files with information that support payroll charges to federal awards. However, during the present year a number of personnel files, including the file in question of an individual who retired during the year, were lost when being transported during the Department's move. The payroll charge to the federal grant for this individual was \$197.87 for the weekly pay period ending September 6, 2003. The charge for this individual for the entire year would have been about \$10,000 and depending on how many other files are missing the unsupported charges to federal grants could be significant. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044, Fiscal Year 2004 Single Audit Finding 43*)

Recommendation

The Department should exhaust efforts to find or reconstruct the information missing that supports the payroll charges to the federal awards.

Department Corrective Action Plan

The missing retired employee physical records were not recovered. At the time of the audit, Elder Affairs was undergoing two changes:

1. Physical and operational consolidation of Human Resources operations from Elder Affairs to the Executive Office of Health & Human Services. This included the boxing and physical relocation of all employee records to 600 Washington St, Boston, MA.
2. Elder Affairs conducted substantial physical office renovations to the entire office. This involved temporary physical relocation of all filing systems.

We acknowledge that we are unable to find the retired employee's physical record as a result of our renovation and human resource consolidation efforts last year. We believe that the payroll documentation which exists within the Commonwealth's Human Resource data system (HRCMS) and the internal controls which govern all Commonwealth employee payroll transactions are sufficient evidence that the payroll costs were incurred and were applied appropriately to AoA specific activities.

Finally, we have verified that all active status employee records are safe and secure at our Human Resources office located at 600 Washington St, Boston, MA.

Responsible Person: Mary Cummings
Implementation Date: N/A

Department of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 27: Lack of Semi-Annual Certifications for Employees' Whose Payroll is Charged to Federal Awards

The Department of Elder Affairs (Department) did not maintain adequate documentation for salaries charged to federal awards. Two of the twenty-five transactions selected for testing were for employees' salaries that were charged solely to the Title IIIC program. The Department could not provide the required certifications for these employees, whose total payroll expense for fiscal year 2005 amounted to \$114,920.

OMB Circular A-87 Section Attachment B, Section 11 (h) "Compensation for Personal Services" states:

"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

Department officials stated that the certifications have not been completed in a timely manner during 2005 due to the Office reorganization. (*Department of Health and Human Services – Special Programs for the Aging, Title III, Part C- 93.045*)

Recommendation

The Department should ensure that it has implemented its procedures to monitor the completion of semi-annual certifications in accordance with federal requirements.

Department Corrective Action Plan

Plan: Internal controls will be developed to ensure that payroll expenses charged to federal grants are certified. Employees charged to federal grants will be identified and maintained on a Master List. Semi-Annually, the Master list will be reviewed by the Directors of Budget and Human Resources. Once reviewed, the Budget Director will sign the master List, certifying that payroll costs are properly assigned to federal grants.

Responsible Person: Janet Cornebise, Budget Director and Mary Cummings, Human Resources Director
Implementation Date: November 1, 2005

Department of Elder Affairs

Findings not Repeated from Prior Years

1. The Federal Reports were not reconciled with the Commonwealth's Accounting System. Prior to New MMARS implementation, the Department was unable to prepare SF 269 from MMARS due to commingling of various components of the Title III Program within three appropriations. New MMARS now requires all transactions to be coded to the specific federal grant, grant year and purpose of activity within. (*Fiscal Year 2004 Single Audit Finding 39*)
2. The Department needed to establish and implement its statewide monitoring tool, including site visits, for FY2005 to evaluate and assess the AAA's performance and record keeping for program quality and effectiveness. The Department has implemented the state wide monitoring tool, which requires each of the twenty-three AAAs to have an annual monitoring visit. During fiscal year 2005 seventeen of the twenty-three have been visited and the other six are scheduled to be visited by September 30, 2005. (*Fiscal Year 2004 Single Audit Finding 41*)

Department of Public Health Background

The Department of Public Health (Department) protects public health through a wide variety of activities. The Department monitors the quality of the Commonwealth's health care facilities and regulates the environment, health and sanitation of food, drugs and other consumer products. Through its hospitals, it provides direct care services, inpatient hospital care and education, with special emphasis on populations not adequately treated by the voluntary and private sectors.

Through its providers and various outreach programs, the Department provides a broad range of preventative and health promotion services. Environmental health education informs the public about hazardous substances in the workplace. The maternal and child health program offers specialized health care for high-risk infants to help curb infant mortality and prevent later health complications. Substance abuse services include education, counseling and youth intervention programs. The Childhood Lead Poisoning Prevention Program provides in excess of 300,000 blood analyses annually to detect lead content. The AIDS Bureau provides AIDS testing, preventative education, and coordinates with the substance abuse services to raise public awareness of the relationship between AIDS and substance abuse. Other outreach operations provide blood pressure and cholesterol screening and nutritional information and training. They also immunize children and adults and monitor communicable diseases. Through the Special Supplemental Food Program for Women, Infants and Children, food supplements are made available to mothers and their children.

For fiscal year 2005, the Department administered approximately \$730 million. Of this amount, federal funds amounted to \$258 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

No findings resulted from the audit of this federal program.

Department of Public Health

Findings not Repeated from Prior Years

1. The Department of Public Health was not in compliance with the independent peer review requirements of the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) during FY 2004, however the Department was in compliance with the SAPT requirements during FY 2005. (*Fiscal Year 2004 Single Audit Finding 25*)

Department of Revenue/Division of Child Support Enforcement Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue and receives its mandate pursuant to Massachusetts General Laws Chapter 119A. The Division is the single state agency within the Commonwealth that is designated as the IV-D agency pursuant to Title IV, Part D of the Social Security Act. In accordance with the provisions of the law, the Division provides IV-D services to families, whether or not they are recipients of public assistance, to establish, modify, and enforce child support obligations. The services include location of obligees and obligors, the establishment of paternity, the establishment, modification, and enforcement of child support orders, including orders for health care coverage, and the collection and disbursement of support payments.

During FY2005, the Division's total expenditures were approximately \$68 million.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.563	Child Support Enforcement

Department of Revenue/Division of Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 28: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (CSE or Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, 13 cases were not administered in accordance with federal regulations.

A violation of 45 CFR 303.2 was noted in 13 of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In all 13 cases, a review of the respective cases' Records of Support Action disclosed that necessary information was not obtained within twenty days after submission of the complete application. In all 13 cases, the assessment did not take place until respectively 70, 33, 44, 30, 157, 27, 68, 84, 123, 119, 130, 74, and 40 days after receiving the respective applications, which exceeds the 20-day window for case assessment.

The Division's 2005 Self-Assessment Review Report, required by federal statute, 42USC 654.15, found similar violations regarding (1) the Establishment of Paternity and Support Orders - 84 error cases of the 125 tested, (2) Review and Adjustments of Orders - 36 error cases of the 102 tested, (3) Interstate Services - 60 error cases of the 144 tested and (4) Case Closure - 21 error cases of the 119 tested. Overall, the Report found that the Division was compliant in four of the eight performance criteria and non-compliant in the four cited above.

The Division's ineffective case tracking and management system suggests a weakness in the *Commonwealth of Massachusetts Enforcement Tracking System (COMETS)*, its comprehensive case tracking and management system, and/or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. (*Department of Health and Human Services - Child Support Enforcement 93.563; Fiscal Year 1989; 2004 Single Audit Finding 24*)

Recommendation

We recommend that the Division enforce its policies and procedures to comply with federal requirements governing case file review and administration including periodic training to its caseworkers. Supervisors should also review the work performed by caseworkers to ensure that all case files are complete and accurate, that the Division's policies and procedures are followed and that federal compliance requirements are met.

The Division's Internal Audit Unit should continue to review case files with all active files being reviewed at least once every three years. These reviews should be documented and any errors identified logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

The Division should continue to provide effective training for caseworkers, which focuses on adhering to federal requirements surrounding case file review and management.

Department Corrective Action Plan

CSE implemented case ownership in January and February of 2005 after a comprehensive initiative to redesign its organizational structure, workflow, and business processes to improve performance, make maximum use of human resources and information technology, reduce costs, and improve the quality of customer service. With case ownership, we assign responsibility for cases, reduce the volume of calls handled by our customer service bureau, and help ensure required actions are taken on cases in a timely fashion. Case ownership will address the errors cited in the audit, as the worker will have full responsibility for ensuring that the appropriate actions are taken on a timely basis.

Department of Revenue/Division of Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 28 Ineffective Case Tracking and Management System (Continued)

Department Corrective Action Plan (Continued)

CSE continues to work with our location specialist vendor to refine the location work performed by the vendor. Data is exchanged between CSE and the vendor through an electronic file transfer protocol. When data is returned to the case owner, he or she determines the next necessary step. CSE has also established a location workgroup to examine ways to streamline location processes.

CSE has also engaged a vendor to design and implement automated workflow management, imaging and documents generation and management. (Work started in late June with a completion date 14 to 18 months out.) This will route work more efficiently to case workers, improve supervisory oversight, strengthen quality control and provide management and staff with more real time information about case status and what actions are needed on a case. An imaging/document management system that electronically captures, stores, retrieves and distributes documents and the data on those documents will streamline case processing activities, minimize manual data entry, allow CSE to address customer issues quickly by providing direct access to documents and eliminate the search for paper. The benefit of imaging/document management will cut across all offices/units within CSE as workers from across the state can easily access the same document. The imaging/document management system will be integrated into CSE's automated system, COMETS, so that workers can retrieve documents without leaving the main system, thereby providing all necessary information at a glance. Workflow support will be incorporated to route documents and direct completion of tasks, enabling CSE to better respond to parents' requests for service.

Workflow support will be incorporated into the imaging/document management system mentioned above and will enable CSE to implement the redesigned business processes to increase staff efficiency and respond timely and proactively when action is necessary. Most child support work is organized around document management and tracking and imaging systems can be tailored to support this kind of activity. Workflow tools provide structure, efficiency, and accountability to business processes by enforcing rules for the routing of documents/information and the completion of associated tasks. Federal regulations mandate that child support cases be processed according to federal timeframes and that the worker must be notified automatically of the next appropriate action when manual intervention is required. By utilizing these workflow tools, CSE can ensure that all federal timeframes and regulations are met. By streamlining workflow and ensuring that appropriate steps are taken in a case, CSE will be in a strong position to improve on the five federal performance measures and maximize the amount of federal incentives returned to the state, while better serving the customer's needs.

CSE has started a detailed review of all interfaces with partner agencies with an emphasis on state human service agencies such as the Department of Transitional Assistance, Department of Public Health, Department of Social Services, and MassHealth. The state's Executive Office of Human Services has assigned a project manager to assist the Division in writing business requirements for the interfaces and to assess the human services agencies' readiness to modify their interfaces.

To support the workflow management and interface project, the Division has obtained longer term financing for these project through the state's information technology bond fund.

Responsible Person: Paul M. Cronin

Implementation Date: Ongoing

Department of Social Services Background

The Department of Social Services (Department) established by Section 1 of Chapter 18B of the Massachusetts General Laws provides services to children and families who are at risk, or have been victims of, abuse or neglect. The Department administers a comprehensive social services program. These services are administered through 28 area-based offices, and include counseling, protective services, parent aid and other in-home supports to reduce risks to children and provide legal and adoptive services. To ensure the children's well being, when necessary, the Department intervenes through court orders or voluntary agreements to place the child with foster parents or in group homes. During FY2005, approximately 10,000 children were living in foster care or some type of residential setting, either a group home or residential facility. When a child is removed from his or her home, the Department develops a plan to provide, as soon as possible, a long-term stable resolution. The Department also provides shelter and other services for battered women and their children.

For fiscal year 2005, the Department administered approximately \$668 million. Federal funds amounted to approximately \$270 million. The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Department's major federal program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.658	Foster Care – Title IV-E

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings

The fiscal year 2004 single audit report disclosed that the Department of Social Services (Department) was not in compliance with the requirements for open hearings regarding appeals of certain decisions. Our follow-up audit disclosed that the Department continues its non-compliance with regard to the number of unscheduled hearings which escalated in fiscal year 2005. A review of fair hearing requests received from 1998 to 2005 (as of June 22, 2005) disclosed 5,009 open hearing requests. Of these, 3,910 have not been scheduled for a fair hearing by the Legal Department within the 90 calendar days as required by Department regulations, 814 have been scheduled for a hearing, 8 have data errors, and 277 have not been scheduled but are within the 90 days scheduling requirement. This represents an increase of 273 unscheduled fair hearings (within the 90 calendar days) from the 3,637 unscheduled fair hearings in fiscal year 2004.

The fair hearing process allows clients including biological, foster, and adoptive parents and children receiving services, the opportunity to appeal certain matters and to present other matters to the Department through a grievance process. The fair hearing process allows clients dissatisfied with certain actions or inactions of the Department or a provider under contract with the Department, to present his or her position in an informal hearing and to receive a just and fair decision by an impartial hearing officer based on the facts and applicable regulations. The Code of Massachusetts Regulation (CMR) 110 requires the Department to employ and train impartial fair hearing officers whose sole duty shall be to conduct fair hearings statewide. An individual shall file a written request for a fair hearing with the Department's hearing office within 30 calendar days from a decision.

As required by 110 CMR 10:05, a fair hearing shall address (1) whether the Department's or provider's decision was not in conformity with its policies and/or regulations and resulted in substantial prejudice to the aggrieved party; (2) whether the Department's or provider's procedural actions were not in conformity with its policies, regulations or procedures and resulted in substantial prejudice to the aggrieved party, or (3) if there is no applicable policy, regulation or procedure, whether the Department or provider acted without a reasonable basis or in an unreasonable manner which resulted in substantial prejudice to the aggrieved party.

The review of the FamilyNet open fair hearings report as of June 22, 2005 noted:

<u>Calendar Year</u>	<u>Total Requested Hearings</u>	<u>Open Hearing Requests</u>	<u>Hearings Not Scheduled</u>
2005 (As of 06/22/05)	946	635	326 ⁽¹⁾
2004	1,939	1,641	1,576
2003	2,038	1,484	1,361
2002	1,957	661	514
2001	1,900	319	98
2000	1,949	180	19
1998-1999	7,799	89	16
Total	<u>18,528</u>	<u>5,009</u>	<u>3,910</u>

⁽¹⁾277 requests received after March 22, 2005 were not included in the hearings not scheduled total since requests were received within the 90 days allowed to schedule the hearing.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (Continued)

In addition, we noted 8 requests for an open fair hearing had data errors, including 4 with the scheduled hearing dates the same as the hearing request received date and 4 with the scheduled hearing dates prior to the hearing request date.

Fair Hearings are conducted for allowable grounds of appeal including:

1. Applicants may appeal the Department's failure to follow 110 CMR, the computation or imposition of fees for services, or any action or inaction of the Department to place a child across state lines;
2. Biological parents may appeal when a goal determination at a Foster Care review changes;
3. A recipient of services from the Department may appeal a) the suspension, reduction or termination of services, b) the fee calculation if the recipient can show an incorrectly calculated fee, or c) the failure of the Department to follow 110 CMR which resulted in substantial prejudice to the recipient;
4. Foster parents have the right to appeal decisions of the Department as stated in 110CMR 10:06, including licensing decisions, foster care child removals, decisions to close foster home etc.;
5. Pre-adoptive and adoptive parents may appeal the denial of an applicant to become a pre-adoptive placement, withdrawal of Department sponsorship of a placement or removal of a child from placement;
6. Adolescents and children through an attorney or representative may appeal changes in goal determinations;
7. Any parent or caretaker of a child has a right to appeal a Department's support of a finding of abuse or neglect of a child.

Code of Massachusetts Regulations 110 section 10:10 states,

The hearing shall be scheduled to be held within 90 calendar days from receipt of a request for a Fair Hearing.

The Department is not meeting the legal requirements of conducting an appeals process for individuals involved with the Department services.

Due to budget constraints and the management time devoted to priority foster care related issues, the Department has been unable to hire hearing officers in recent years. As a result, Department personnel stated that the reduction of hearing officers in prior years from five to three, due to early retirement and budget cuts, has resulted in a backlog of unscheduled hearings and continues to impact the process. Department personnel had to prioritize cases based on the impact to individuals involved in a case.

During fiscal year 2005, the Department offered to personnel a six-month job transfer to assist in clearing the backlog. One person has applied and DSS personnel are in the process of reviewing the applicant. In addition, the Department has received additional funding in the fiscal year 2006 budget to address fiscal year 2005 single audit findings. (*Department of Health and Human Services – Title IVE Foster Care Program 93.658; Fiscal Year 2004 Single Audit Finding 32*)

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (Continued)

Recommendation

The Department should implement procedures to comply with the legal mandates, including seeking additional resources to conduct the required hearings and complete the appeals and grievance process for requesting individuals in accordance with agency regulations. The Department should continue the process of reviewing staff for temporary transfers and conduct the hiring of permanent hearing officers as soon as possible to address the increasing rate of unscheduled fair hearings.

Department Corrective Action Plan

The Department is pleased to report that it has received additional funding in the agency's administrative account which will enable the agency to hire three additional fair hearing officers. Through these hires, the Department full-time fair hearing officers will increase from 3 to 6. Increased staffing will provide the needed resources to resolve older pending cases and provide more timely responses to fair hearing requests as required by Department regulations. The Department expects that the 3 additional fair hearing officers will be in place no later than February 1, 2006. Leading up to that time, in addition to completing the hiring process and identifying cases for hearing, the Department will reconfigure case assignment responsibilities, which is now generally done based on geographical regions and Special Investigations, to ensure that consumers across the state have fair and timely access to the fair hearing process. (Last month, in light of the above, the Department decided to forego its prior plan to recruit field staff to a "sabbatical" assignment as temporary fair hearing officer. Only one volunteer had come forward in response to the announcement.)

Responsible Person: Virginia Peel, General Counsel
Implementation Date: February 1, 2006

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

The fiscal year 2004 single audit report noted that the data in the Department of Social Services (Department) FamilyNet system needed improvements because of incomplete and inaccurate data representing a 52% error rate in the data including overdue licensing re-assessments for a number of homes where children had been placed. Our follow-up audit noted the Department implemented several controls resulting in significant improvements to the FamilyNet data. A review of 3,667 foster care records with children in FamilyNet, a local area network implemented by the Department in February 1998, was performed to determine the Department's compliance with licensing, re-assessments, and criminal background checks. The review of the June 2005 monthly Department's Foster Care Compliance Report, compiled from FamilyNet data, issued to area agency personnel to monitor foster care provider licensing and criminal background checks noted a 20% error rate including overdue and not completed annual provider re-assessments and missing date information.

An analysis of the 3,667 files in the FamilyNet system, as of June 2, 2005, noted the following: 255 files with the "home study" and "annual re-assessment" dates blank; the home study represents the original approval for child placement; (238 of these files were children placed in 189 homes within the 40 days allowed by this regulation)

- 254 files with the "recent re-assessment" dates blank and the initial home study date (child placed in the home) prior to June 2, 2004 (requiring a home re-assessment by June 2, 2005);
- 218 files that indicated that the annual re-assessments were overdue -- 162 overdue less than a year, 31 overdue more than 1 year and less than 2 years, 15 overdue over 2 years and less than 3 years, 2 overdue 3 years and less than 4 years, 5 overdue more than 4 years and less than 5 years and 3 overdue more than 5 years and less than 6 years.

This results in a 20% error rate in the files. Additionally, 1,498 files dated after June 2, 2004 were not included in the analysis because they were within the one year allowed for the review. Although this represents a significant improvement from the fiscal year 2004 error rate of 52%, the Department still needs to continue its review of FamilyNet data for compliance.

Department Area Office personnel input case management data to FamilyNet. The data includes the resource provider name, the initial licensing date, most recent assessment date, number of authorized children, and the names of children placed in the resource provider home. From the FamilyNet data, the Department produces monthly reports entitled "Department Foster Care Compliance Report" and "Unapproved Homes with Active Placements" provided on the Department DocDirect system. These reports are provided to personnel responsible to monitor and conduct foster care provider licensing and criminal background review checks. The Area Office caseworkers are responsible to reconcile case data from the hardcopy records as well as information in the monthly reports to FamilyNet.

Department personnel stated that the monthly reports are a tool for determining licensing re-assessment due dates and that Area Office personnel also rely on FamilyNet and the hard copy case files for due and overdue assessments to determine license assessment dates. Even though personnel rely on hard copy files, as back-up information, Department officials stated that FamilyNet is the system of record.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (Continued)

During the fall of 2004, the Department established a new position to review reports for data accuracy, review compliance by Area Office personnel and conduct training for Regional and Area Office personnel on the utilization of FamilyNet reports to track home study and licensing reassessment dates and CORI due dates. Regular meetings are conducted between Foster Care Central Office and Area Office personnel, which include discussions on compliance and FamilyNet data. Also each month, the Area Offices receive a copy of the FamilyNet reports specific to their office to review for compliance. Each month Central office personnel send reports listing all cases for their office for compliance review by caseworkers to the Area Offices. The Department, however, does not produce an exception report identifying cases with overdue licensing/reassessment study dates.

Further, Department officials have stated that although the reports indicate that the re-assessments for continued licensing are overdue, the regulations allow for licenses to remain in effect until the re-assessment is performed. While we concur that the regulations do stipulate this, we do not believe that the intent of the legislation was for homes to remain licensed for an indeterminate amount of time before being assessed by the Department, resulting in a delay in a management discussion regarding the relationship between the foster homes and the Department, which is an integral part of the licensing process.

The Code of Massachusetts Regulations, 110 CMR 7.113, requires the following:

The Department shall annually reassess foster care parents and homes whether unrestricted, kinship or child specific including interviews, case file reviews and criminal background checks and after completing the reassessment issue within ten working days a decision on the re-approval terms and conditions.

Additionally, 110 CMR 18.08 (2)(b) requires:

(b) The DSS shall conduct a CORI Investigation of any household member age fourteen or older during the initial home-study/evaluation of the foster/pre-adoptive home and during the annual reassessment of the foster/pre-adoptive home.

Federal regulation, CFR, Title 45, Section 1356.30(a) states,

Unless an election provided for in paragraph (d) of this section is made, the State must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents.

Blank date information in FamilyNet and monthly reports results in children remaining in homes that lack timely initial licensing and annual re-assessments. It further results in noncompliance with state and federal laws, rules and regulations and Department policy because if homes are not licensed timely, Federal regulations preclude reimbursement to the state for payment made to the foster home. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2003; 2004 Single Audit Finding 31*)

Recommendation

The Department should continue its Central Office oversight control process, including periodic reviews of monthly reports and case information entered into the FamilyNet system, to ensure that information related to foster care cases and licenses is properly recorded and current.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (Continued)

Recommendation (Continued)

Department should stress the importance of updating the FamilyNet system with timely and accurate information in order to maximize its benefits and utilize the system for relevant data. Management should continue issuing monthly reports to Area Offices and consider developing an exception report to facilitate identifying overdue licensing and case re-assessment dates by Region/Area Office for review. Further, Department personnel should complete a reconciliation of information in FamilyNet and the reports to identify and reconcile any data exceptions. Overdue re-assessments should be performed as soon as possible in order to comply with regulations.

Department Corrective Action Plan

During FY 2005, the Department has been rebuilding the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Support Services Unit is now staffed with a full-time Director in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice. In addition, two Foster Care Managers have been hired as of September 2005, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meet regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staff are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff. These routine meetings continue.

Central Office Foster Care Support Staff and two on-going foster care advisory committees, the Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family Resource Supervisors representing their Area and Region, are attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required manual staff entry). The coordination of continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continue between the IT department and the Adoption and Foster Care staff. The Department is currently piloting in various offices across the Commonwealth a limited mobile technology project. Lessons from this pilot will inform any decision to provide mobile technology for family resource staff.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (Continued)

Department Corrective Action Plan (Continued)

Most important to improving our CORI checks and re-licensing in foster care, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program this year. Six Recruitment Supervisors have been hired and have begun work with the field to recruit foster families to meet the targeted placement needs of the offices. Additional support regarding recruitment should be implemented shortly which will allow area staff greater time availability for completion of family resource task requirements. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

In addition, we are in the process of building an Area based support system that scaffolds the Area Office's ability to recruit, support and retain foster parents. By stipending current foster parents, we are creating a collaborative support system of staff and highly skilled foster parents to assist prospective foster parents through training and homestudy and retain current foster parents.

Responsible Person: Mary Gambon

Implementation Date: Ongoing

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement

The fiscal year 2004 single audit report disclosed that the Department of Social Services (Department) was not performing CORI checks within the required annual timeframes. Our follow-up disclosed that although there was a significant improvement in the timeliness of provider CORI checks, the CORI checks continue to be performed late. Our review of twenty-five cases of persons providing foster care services under the Title IV-E Foster Care Program noted no exceptions for the timely completion of annual CORI checks. However, our review of the Department's Foster Care Compliance and Contracted Care monthly reports of all foster care providers disclosed 68 providers with overdue or blank CORI records.

The Department continues to use its Continuous Quality Improvement Process (CQI) to assist the Commissioner and management in assessing the quality of services. The Department uses two monthly reports to monitor and assess the quality of services. One report is the DSS RPT 195 "Department Foster Care Compliance Report" and the second is the DSS RPT 196 "Contracted Care Report". The Area Office family resource workers and the Area Director are responsible for reviewing the DSS RPT 195 "Department Foster Care Compliance Report" monthly and identifying cases due for annual home re-evaluations or licensing reviews. The report captures the evaluation/assessment history of all foster parents/foster homes by type and date and is updated on the 2nd day of the month by Region/by Area Office from data inputted to FamilyNet by the Area Office caseworkers. This report presents comprehensive data, which includes identifying the resource parent information including licensing/home study review dates and the number of children in the home. In addition, the report includes the CORI check date and outcome of the CORI review. The DSS RPT 196 "Foster Contracted Care Report" identifies contract foster care providers including CORI check date, CORI disposition results and the number of children in the home. Department Contracted Care personnel are responsible to review the report for compliance.

A review of the monthly reports provided to Department personnel disclosed the following:

1. The DSS RPT 195 "Department Foster Care Compliance Report" as of June 2, 2005 showed 5 of 3,667 child foster care providers with overdue CORI records. A review of the CORI check records for the 5 providers disclosed that 4 were overdue less than 1 year and 1 was overdue more than 1 year and less than 2 years. This represents a significant improvement from fiscal year 2004 when 93 providers were reported as overdue or blank.
2. The review of DSS RPT 196 "Contracted Foster Care" as of June 2, 2005 disclosed of 1,181 CORI records for providers with children in placement, 2 were blank and 61 had overdue CORI checks including 57 less than 1 year overdue; 2 overdue more than 3 years and less than 4 years; 1 overdue more than 5 years and less than 6 years and 1 overdue more than 6 years and less than 7 years. This represents a non-compliance increase from fiscal year 2004 when 53 overdue CORI checks were reported for the Contracted Foster Care.

Through the FamilyNet system, Department family resource workers in Area Offices track due dates for CORI reevaluations and are required to electronically submit requests to the Central Office CORI unit to complete the background check. During fiscal year 2005, the Department has implemented new automatically generated requests for CORI checks including when prospective new providers resource records are input in FamilyNet and new household members are added to existing homes. Also, a new electronic edit has been established in the FamilyNet system that requires a CORI check dated within 45 days for a home study/license review to receive management approvals. In the fall of 2004, the Department created a position responsible to work with and train foster care personnel and contract providers on the utilization of FamilyNet including the use of the RPT 195 and 196 monthly reports to monitor CORI checks and licensing requirements for compliance. This individual continues to review monthly reports for compliance, conducts training for Department personnel and meets with foster care management on a regular basis.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement (Continued)

The Department is required to perform criminal background checks on all new hires and an annual reevaluation of individuals and families seeking or providing services as foster family resources. Federal regulation, 45 CFR 1356.30(a) and (b), requires that the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents. Under Massachusetts regulation, CMR 110-7.113, the Department is required to “re-evaluate foster parents and foster homes annually and request criminal record and Central Registry (an in-house database that tracks child abuse and neglect cases) checks for adult household members”. Additionally, the CORI process is required during various stages of an eligible foster care provider’s term with the Department. First, the prospective foster or pre-adoptive family must complete an initial eligibility screening process. This process determines whether the individual who is interested in serving as a family resource and the members of her/his household age fourteen years and older are eligible to apply for consideration as a prospective resource provider. Secondly, the prospective foster or pre-adoptive family must complete a home study evaluation. The home study evaluation is performed to pre-qualify the home and applicant to serve as a family resource. Lastly, annual reevaluations are performed for current foster or pre-adoptive families to ensure the household continues to be eligible for providing services. In addition, the CORI department Director reviews and monitors the monthly reports for DSS CORI checks due for the month including overdue background record checks.

The prior audit report also indicated some incomplete CORI checks related to providers whose records were either sealed or old court microfiche which the Department had not received. Identification of these cases was a manual monitoring process by the CORI Director who perused a monthly Family Net report and highlighted those cases for which records were sealed or on old microfiche.

The Department must submit a request for the sealed or microfiche court records to evaluate whether the home is a proper placement for the child. Department personnel stated that requests for microfiche records require the resources of the Criminal History Systems Board (CHSB) to search old records and sealed CORI record requests are received by the Commissioner of the Probation Department. In the case of unavailable CORI records or CORI checks that return with a criminal history, the Area Office personnel discuss the circumstances with the individual, document the information and depending on the information received, request a waiver to place the child. The Department’s waiver process whereby the approval level (i.e. whether the waiver needs to be approved by a Director, the Commissioner, General Counsel or Deputy Commissioner) is dependent on the types and disposition of criminal charges. Any of these individuals can deny the waiver, terminating further placement review. The prior audit, however, stated that although the Department has a documented waiver process, the Department cannot be assured that the placement of the child is in the child’s best interest if the Department has not confirmed the CORI records and types of criminal charges. The Department relies on the caseworkers, the CHSB, probation departments and adherence to the waiver process to ensure that the person whose records were sealed is not a danger to safety and well being of the child.

110 CMR 18.11 (9) states in part that

In reviewing a request for an individual to serve as a kinship foster/pre-adoptive parent the Commissioner, Deputy Commissioner of Field Operations and General Counsel must find (a) that the prospective foster/pre-adoptive parent or any household member does not present a risk of harm to the child based on the existence of a criminal conviction; and (b) that the conviction did not involve a crime against or involving a child.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement (Continued)

The lack of a timely re-evaluations could result in children being placed in an unsafe environment, does not comply with Department policy and may result in ineligible claims for federal reimbursement. (*Department of Health and Human Services - Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2004 Single Audit Finding 29*)

Recommendation

The Department should ensure timely completion of the annual CORI re-evaluations by Department personnel and contract care providers. Department management should reemphasize to personnel and contract care providers the importance of completing timely criminal background checks on foster care provider homes and continue to take steps to monitor and improve CORI compliance. Additionally, in addition to the system edit verifying the completion of a CORI check within 45 days of the home study/license approval, the Department should implement a FamilyNet system edit to provide an automatic notification to the CORI unit prior to the annual CORI re-evaluation due date. Finally, management should review the process of placing children in homes with CORI records sealed or not received to ensure the safety of the children.

Department Corrective Action Plan

The Department's Central Office family and adoptive resource staff, together with CORI unit staff will continue their work with Departmental family resource staff and contracted adoption and therapeutic foster care agencies to further advance the progress being made in ensuring timely completion of initial and annual CORI checks. The generation, sharing and monitoring of monthly reports of foster and adoptive resources needing to be CORI checked, based on the monthly DSS RPT 195 and 196 reports will continue with the goal of having no providers having overdue BRC Checks or not having been subjected to a Background Records Check. This will be accomplished by continuing the meetings with and trainings of pertinent Department and contracted agency staff on the process and importance of timely submission of BRC Requests and, as noted above, the production, sharing and monitoring of the monthly 195 and 196 reports.

The Department will continue to explore where the further automation of the BRC Requests processes, associated with foster and adoptive placement resources, may be beneficial. As noted by the auditors, some automation of the BRC process has occurred in the past year; FamilyNet prevents foster/adoptive re-evaluations from being approved if the most recent BRC Request is more than 45 days old, and when new resource records are created or current home memberships have new persons added, new BRC Requests are automatically generated and processed. However, a "fully" automated system for the generation of annual reevaluation requests may have the unintended and possible problematic consequence of having the checks performed on resources, the household membership of which may be out-of-date. The complete auto-generation of BRC Requests, absent any review by Department and contracted agency family resource staff, could result in the non-checking of new household members, not included in the FamilyNet family resource records, or the inappropriate/unlawful checking of one or more individuals no longer living in the resource home but still registered as a household member in FamilyNet. Part of the manual process for the generation of BRC Requests involves the affirmation of the household membership as it exists in the home of the placement resource and in FamilyNet resource record(s).

The CORI Unit will further continue to work closely with the Criminal History Systems Board and the Commissioner of Probation's office to expedite the processing of and the Department's receipt of CORI records that are sealed or on microfilm. Work / training with Department and contracted agency staff will continue to ensure that no child, in Department's care and custody, is placed in a home that has not been subjected to and BRC/CORI cleared, or that includes an individual, as a household member, that has a Massachusetts CORI record of unknown content (a microfilm or sealed record).

Responsible Person: Susan Getman
Implementation Date: Ongoing

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 32: The Process for Home Licensing Needs Improvement

The fiscal year 2004 single audit report noted that the Department of Social Services (Department) placed children in homes prior to the Department completing proper licensing requirements. The report also noted that subsequent home reviews were not completed in a timely manner. Our follow-up review disclosed that late home licensing or annual reassessments continues to occur although the Department has significantly reduced the number of late home licensing studies. The Department, in three of the twenty-five Title IV-E cases tested, placed children in homes, but did not complete proper licensing requirements in a timely manner. Two of the cases had annual home re-assessment studies completed 4 and 24 months after their due date and one case had a license renewal study completed 15 months after the annual home review due date.

A review of the Unapproved Homes with Active Placements Report disclosed that as of June 20, 2005, 340 children were placed in foster homes prior to the home being licensed. Of those, 238 children were placed in 189 homes within the 40 days allowed by the regulations, 91 children were placed in 76 unlicensed homes for more than 40 days and less than one year, 7 children were placed in 6 unlicensed homes for 1 to 2 years, 3 children were placed in 2 unlicensed homes for 2 to 3 years and 1 child was placed in an unlicensed home for 6-7 years.

A further review of the 9 homes with children in placement over one year noted the following:

- Home A - The home reported as unapproved for 6-7 years was approved on 6/29/05
- Home B - The home required a new study due to a change in the child's classification
- Home C - A child returned to the home for a second placement.
- Home D - A previously approved closed home re-opening requiring a new home study
- Home E - The home study is in progress
- Home F - A pre-adoptive review is in progress
- Three homes including 2 homes listed with placements for 1-2 years and 1 home listed with a child in placement for 2-3 years were on the report due to a system edit that required a new study when the foster parents decided not to close the homes

Our review showed a significant decrease of 368 children in unapproved homes from 708 as of the June 20, 2004 report to 340 children per the June 20, 2005 report. Also, children placed in homes over the 40 working days requirement decreased from 480 children to 102 children.

There are approximately 9,760 children in foster and residential care placement. Department officials explained that in situations involving kinship or child specific placements, the Department is allowed, under emergency provisions, to place the child in the home for 40 working days before a license is issued. They further explained that the above-mentioned report does not take into account these allowed exceptions. However, these exceptions were taken into consideration for purposes of our review and analysis of the data. Department officials stated that the exceptions primarily involve kinship and child specific homes. Area Office personnel have been informed by Foster Care management personnel to review homes and complete licensing for those more than 90 days overdue as a priority.

The Department developed a Continuous Quality Improvement Process (CQI) to assist the Commissioner and management in assessing the quality of services data on the number of children in unapproved homes is one of many indicators being routinely reviewed by management. One tool to measure the status continues to be the monthly report of Children in Unapproved Homes.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 32: The Process for Home Licensing Needs Improvement (Continued)

Senior management continues to conduct meetings and train area office personnel on the usage and review of departmental reports such as the Children in Unapproved Homes Report and the Department Foster Care Compliance Report implemented to track licensing of foster care homes including identifying homes requiring immediate licensing approval and timely reviews. These reports are available to area office personnel on the DocDirect management reporting system maintained by the Department. One report entitled DSS 171 "Unapproved Homes with Active Placements" which captures all foster homes with active placements and no licensing approval by Region/Area Office. The report presents comprehensive data identifying the consumer name, birth date, consumer ID#, case ID#, case worker name, placement start date, family resource name and resource worker and services provided. The second report is the DSS RPT 195 "Department Foster Care Compliance Report" which captures licensing data by provider including dates of home study, annual re-assessments and foster license renewal date and the number of children placed in the home by Region/Area office. In addition, Department personnel stated that Area Office personnel in addition to the reports utilize FamilyNet case files to identify cases due or overdue for review by the assigned caseworker.

In response to the prior audit, Department management stated that because it had lost critical staffing in the foster care program, family resource staff, who are primarily responsible for CORI and re-licensing efforts, were needed to, and were overwhelmed by, the task of finding foster home placements. Therefore the family resource staff's work on the CORI and re-licensing suffered.

During fiscal year 2005, the Department filled two positions including the Director of Foster Care Services and a Foster Care Specialist whose responsibilities include working with Area Office personnel on Foster Care compliance including timely home licensing and training on the utilization of monthly departmental reports. Central Office personnel forward monthly departmental reports by Area Office to the applicable Area Office for compliance review. Area Office managerial staff is responsible to perform license reviews to ensure licensing approvals are completed in compliance with Department policy. Federal regulation, 42 USC 671(a)(10) and 672(c), requires that a provider, whether a foster family home or a child-care institution, must be fully licensed by the proper State Foster Care licensing authority. In Massachusetts, the Department is the licensing authority for departmental foster family homes. The lack of proper licensing does not comply with Department policy and could result in ineligible claims for federal reimbursement. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2004 Single Audit Finding 30*)

Recommendation

The Department should identify foster care homes that require immediate licensing approvals and ensure the homes identified as unlicensed or requiring a license study obtain a timely review by Area office personnel. The Central Office monitoring and oversight process should continue to review for and address deficiencies that are not being identified at the Regional or Area Offices and continue to emphasize to personnel the importance of timely licensing. Lastly, the Department should maximize federally-reimbursable expenditures by ensuring the timely performance of licensing reviews that would have been otherwise non-reimbursable.

Department Corrective Action Plan

By regulation the Department places children in new kinship/child specific homes following the completion of an initial eligibility screening visit to the home which includes the CORI/BRC, safety enhancement checklist and physical standards review. That visit assures licensing standards are met at time of placement. The Department then has 40 working days to complete the homestudy narrative and approval process.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 32: The Process for Home Licensing Needs Improvement (Continued)

Department Corrective Action Plan (Continued)

Department personnel conducted a further review of the Unapproved Homes with Active Placements Report, including a review of FamilyNet case files that contains detailed information not readily available in the report. This review indicated that for 69% (189) of the homes the homestudy was within the 40 working days allowed by regulation. Therefore, 102 children were placed in 85 homes with overdue homestudies. Of those 85 homes, 4 homes (6 children) were listed on the report due to the homestudies being denied but children remained pending fair hearing or court appeals, 8 homes (10 children) appeared on the report due to data entry errors/system edits which required a FamilyNet ticket for resolution (all 8 homes had been identified and ticketed), 3 homes on the report have child specific adoption homestudies showing as overdue (these homes have a prior foster home approval). Therefore, if you remove the 4 homes (6 children) in appeal, the 8 homes (10 children) with a system edit, the 3 homes (3 children) already in an approved foster home awaiting a adoption homestudy, the Department actually had 70 overdue homestudies (83 children) as of the June 20, 2005 report. Of those homes, 32 homes were approved within 10 working days of the issuance of the report.

The Department's review of the FamilyNet case files containing supporting documentation of the 9 homes with children in placement over one year noted the following:

- Home A – This home was approved 7/22/98 as a Kinship/Child Specific Foster Home, the child was placed 7/24/98, the home was re-assessed in 1999, 2001, 2002, 2003, and 2004. 6/29/05, a Kinship/Child Specific Adoption Homestudy was approved.
- Home B – The home required a new study due to a change in the child's classification.
- Home C – A child returned to the home for a second placement.
- Home D - A previously approved closed home re-opening requiring a new homestudy.
- Home E - The home was initially approved through Interstate Compact as the foster parent resided in Florida. When the foster parent and foster child moved to Massachusetts, a new homestudy was initiated.
- Home F - A pre-adoptive review is in progress.
- Three homes including 2 homes listed with placements for 1-2 years and 1 home listed with a child in placement for 2-3 years were on the report due to a system edit that required ticket resolution by the FamilyNet Helpdesk. These tickets had been reported to IT.

During FY 2005, the Department has been rebuilding the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Support Services Unit is now staffed with a full-time Director in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice. In addition, two Foster Care Managers have been hired as of September 2005, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meet regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staffs are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff. These routine meetings continue.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 32: The Process for Home Licensing Needs Improvement (Continued)

Department Corrective Action Plan (Continued)

Central Office Foster Care Support Staff and two on-going foster care advisory committees, the Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family Resource Supervisors representing their Area and Region, are attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required manual staff entry). The coordination of continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continues between the IT department and the Adoption and Foster Care staff.

Responsible Person: Mary Gambon

Implementation Date: Ongoing

Department of Social Services

Findings not Repeated from Prior Years

1. The Department of Social Services did not meet the federal legal requirements for documentation of judicial determination in three of 25 cases selected for Title IV-E review. At the time these cases were to be submitted for federal reimbursement, Department could not locate the records in the case files. During the current year, the Department was able to locate the files for all selections in the Title IV-E review.
(Fiscal Year 2004 Single Audit Finding 33)

Department of Transitional Assistance Background

The Department of Transitional Assistance's (Department) goal is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this aim, the Department provides assistance to over 500,000 people in the Commonwealth each month through such programs as Transitional Aid to Families with Dependent Children (TAFDC), Supplemental Security Income and Food Stamps. The Department also operates the Employment Services Program that provides basic education, skills training, job referral, career counseling, and transportation services to certain TAFDC and Food Stamp clients.

During fiscal year 2005, the Department administered about \$840.9 million in carrying out its transitional assistance programs and \$346.3 million of Federal Food Stamp benefits for a total of \$1.18 billion in state and federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.558	Transitional Assistance to Needy Families
10.551	Food Stamps Program
10.561	State Administrative Matching for Food Stamp Program

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 33: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

The Food Stamps Report *Status of Claims Against Households (FNS 209)* submitted to the U.S. Department of Agriculture, Food and Nutrition Services (USDA/FNS) for the quarter ended December 31, 2004 by the Department of Transitional Assistance (Department) was reviewed by the Food and Nutritional Services (FNS) in February 2005. The primary purpose of the review was to determine whether the Department successfully completed the requirements stated in its Recipients Claims Corrective Action Plan (CAP) that resulted from the USDA/FCNS Management Evaluation Review conducted in February 2004. The April 2005 report stated that it was encouraged by the overall operations of recipient claim management, however all CAP activities had not been completed. Four of the seven CAPs had been fully implemented and the findings were considered closed by the USDA/FCNS. However, three of the seven Department CAPs submitted to FNS had not been implemented at the time of our testing procedures; consequently, the following deficiencies still exist.

- The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department's collections declined by 47.48% between 2001 and 2003.
- The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
- The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).

As required by 7 CFR 273.18, the FNS 209 report is submitted on a quarterly basis and is used to support the amount of outstanding claims against food stamp recipients and the amount of cash collections and recoupments made during the quarter. The accuracy of these reports is important because the Department must submit to the federal government 65% of the amount collected due to Intentional Program Violations, 80% of the amount collected due to Inadvertent Household Errors and 100% of the amount collected due to State Agency Administrative Errors. (*Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 1994; 2004 Single Audit Finding 54*)

Recommendation

The Department should implement the FNS recommendations, consistent with its CAPs, to bring the Department into full compliance with all applicable regulatory provisions.

Department Corrective Action Plan

Finding – “The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection.”

- The Department has developed and submitted to USDA/FNS on July 8, 2005 a policy for terminating inactive accounts for review by the USDA/FNS and the Massachusetts Office of the Comptroller. On September 1, 2005, USDA/FNS approved the revised Claims Management Plan, and on October 5, 2005, the agency's proposal for terminating and writing off inactive accounts was submitted to the Comptroller of the Commonwealth for approval. Pending approval from the Comptroller, this policy will likely be incorporated into the agency Claims Management Plan within sixty days from receipt of said approval.

Finding – “The Department does not compromise claims as required by 7 CFR 273.18(e)(7).”

- The Department reviewed state, federal, and department policy and completed an analysis of policy and operational requirements for review and approval by the Department's Executive Staff in March 2005. On August 15, 2005, the Department's compromise policy was submitted to USDA/FNS and, on September 1, 2005, USDA/FNS approved the Department's policy. By December 31, 2005, the Department expects to modify its Claims Management Plan.

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 33: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data (Continued)

Department Corrective Action Plan (Continued)

Finding – “The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).”

- The Department will increase submission of TOP eligible claims to USDA/FNS to a quarterly cycle beginning in October 2005. These claims will be prepared for submission through an automated process using the Department’s BEACON (Benefit Eligibility and Control On-Line Network) system. All future submissions will take place quarterly and be automated.

Responsible Person: Mark Miller, Director of Fraud Investigations and Recoveries

Implementation Date: October 31, 2005

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 34: The Department's Investigation and Recoveries of Food Stamp Fraud Needs to be Improved

The United States Department of Agriculture Food and Nutrition Service (USDA/FNS) issued a report in June 2005 listing six findings that require corrective action by the Department of Transitional Assistance (Department). Fraud investigations are conducted by the Department's Fraud Investigations and Recoveries Unit (FIR) and the Office of the State Auditor's Bureau of Special Investigations (BSI).

Federal regulation, 7 CFR 273.16(a)(1) requires that each state agency that administers the Food Stamp Program have a system in place to detect fraud on the part of households that apply for federal assistance. The system must be capable of initiating timely and appropriate action against any household that reports erroneous information, either inadvertently or intentionally. The system, in addition to its enforcement and recovery capabilities, must allow the household the opportunity to contest any adverse action taken against it by the state agency. Finally, the system must be capable of tracking progress of actions taken against households, and reporting those actions in the manner prescribed by federal reporting requirements.

The six findings included in the USDA/FNS report were:

- Investigation referral backlog of 7,000 cases at the FIR Unit
- Overdue fair hearing and administrative disqualification hearing (ADH) decisions; fair hearing decisions need to be issued within 60 days of a request for a fair hearing and an ADH decision needs to be issued within 90 days of the original notice to the household member.
- Unavailability of Department records to support field investigations.
- Incomplete and inaccurate FNS-366B Report, Program and Budget Summary Statement, Part A – Budget Projection.
- Lack of documentation on referrals sent back to the Department from BSI and lack of court documents in case files.
- Investigation referral backlog at the BSI of 2,137 cases.

The Department has submitted its corrective action plans to the USDA/ FNS and is awaiting approval. (*Department of Agriculture – Food Stamp Program 10.551*)

Recommendation

The Department should implement the FNS recommendations to bring the Department into full compliance with all applicable regulatory provisions.

Department Corrective Action Plan

The Department submitted its response on August 12, 2005 to the FNS Fraud Review and is waiting approval of its proposed Corrective Action Plan (CAP). The CAP includes detailed steps that will be taken to address the six findings listed above. Upon approval of the CAP the Department will immediately implement the corrective actions necessary to ensure full compliance.

Responsible Person: Mark Miller, Director of Fraud Investigations and Recoveries

Implementation Date: To be determined upon approval by FNS

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 35: Failure to Perform Federal Tax Information Match

During fiscal year 2005, the Department of Transitional Assistance (Department) did not perform the Federal Tax Information (FTI) data match with the Internal Revenue Service (IRS).

As required by 42 USC 1320b-7 and 45 CFR section 205.55, each state shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the state is required to coordinate data exchanges with other federally-assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the state is required to request and obtain unearned income from the IRS, though the Federal Tax Information match and utilize the information to the extent such information is useful.

The Department actually stopped performing the IRS data matches in April 2002 based on a deficiency noted in an IRS interim Safeguard Review Report dated June 2001, that the Department was disclosing tax information to the Office of the State Auditor's Bureau of Special Investigations (BSI). Under 26 USC 6103, disclosure of FTI from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel. The BSI conducts the Department's criminal fraud referrals and has done so for Massachusetts since the inception of IEVS in 1988. BSI has never been organizationally part of the Department, and therefore the FTI should not have been disclosed to them.

The Department has pursued with the IRS the reestablishment of a data exchange. The IRS issued its final Safeguard Review Report in October 2004 and accepted in full the Department's corrective action plan. As of June 30, 2005, the Department was awaiting the final approval by the IRS of an agreement to reestablish the data match. (*Department of Health and Human Services – Temporary Assistance for Needy Families 93.558*)

Recommendation

We recommend that the Department execute the final agreement with the IRS so that data matches can be conducted in accordance with federal regulation.

Department Corrective Action Plan

A Safeguard Procedures Report was submitted to the IRS on June 1, 2005. This report must be approved by the IRS before it will initiate the matching process. The report redesigned methods by which the Department would administer Federal Tax Data and incorporated Federal Tax Information Safeguard Guidelines. On September 16, 2005 the IRS responded that the Safeguard Procedures Report submitted in June, 2005 was not approved pending the receipt of additional computer security information.

The Department continues to address all issues related to IRS guidelines and requests for information. In order to be able to perform the match the Department needs to revise its current Safeguard Procedures report to respond to questions and additional information requests recently received from the IRS. The Department will also have to submit a new Computer Matching Agreement and Agreement to Cover Reimbursable Costs to complete all requirements necessary to receive the data for the match from the IRS. It is anticipated that a revised Safeguard Procedures Report, a current Computer Matching Agreement and an Agreement to Cover Reimbursable Costs will be submitted to the IRS by mid-November, 2005.

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 35: Failure to Perform Federal Tax Information Match (Continued)

Department Corrective Action Plan (Continued)

Based on the above submission dates and assumed approval of the IRS, the Department expects to be able to perform the Federal Tax Information (FTI) data match with the Internal Revenue Service (IRS) by the end of fiscal year 2006.

Responsible Person: Cescia Derderian, Assistant Commissioner of Field Operations

Implementation Date: January 31, 2006

Department of Transitional Assistance Findings not Repeated from Prior Years

1. The Department of Transitional Assistance's (Department) Benefit Eligibility and Control On-Line Network System (BEACON) lacked the appropriate segregation of duties for inputting eligibility data. The Department has instituted the appropriate controls for inputting eligibility data. (*Fiscal Year 2004 Single Audit Finding 55*)

Executive Office of Health and Human Services/Office of Medicaid Background

The Executive Office of Health and Human Services (Executive Office) is the designated single state agency responsible for administering the program of medical assistance. The Executive Office assumed the single state agency responsibilities in fiscal year 2004 pursuant to a legislative reorganization and designation of the Executive Office as the single state agency. Prior to that date, and beginning in fiscal year 1994, the Division of Medical Assistance (Division) was the designated single state agency. As the current single state agency, the Executive Office administers the medical assistance program primarily through its Office of Medicaid (Office).

During fiscal year 2005, the Office administered approximately \$9.7 billion in carrying out its program. Federal funds amounted to approximately \$4.9 billion.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Office's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
93.778	Medical Assistance Program
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.767	Children's Health Insurance Plan

**Executive Office of Health and Human Services
/Office of Medicaid
Findings on Compliance with Rules and Regulations**

Finding Number 36: Missing Income Eligibility Documentation

One out of 25 selections tested for eligibility under the State Child Health Insurance Program (CHIP) administered for the Executive Office of Health and Human (Executive Office) by the Office of Medicaid (Office) revealed that the Office was able to provide a copy of only one weekly pay stub that was used in determining the members eligibility.

Federal regulation, 42 USC 1397bb(b), requires states to create a member eligibility plan detailing who the state will cover under the CHIP program. The plan will include the standards used to determine eligibility of targeted low-income children. State regulation, 130 CMR 506.005 requires the Office to obtain one the following items of documentation when determining eligibility: 1) two recent pay stubs, 2) a signed statement from the employer, or 3) most recent U.S. tax return.

The risk that the Office incurs by not obtaining two pay stubs is that the employee may not be aware of the employee's full earnings if the pay stub submitted is not reflective of the entire year. This exposes the Office to the risk that they are approving an ineligible person for CHIP services. (*Department of Health and Human Services – State Children's Health Insurance Program 93.767*)

Recommendation

The Office needs to improve its client file management procedures to ensure that all the necessary and required documentation is complete and current including a control measure to identify that all files are complete.

Department Corrective Action Plan

The Office will continue to stress the importance of comprehensive client file management to ensure that all required documentation is complete and current and will enhance control measure to identify that all files are complete.

Responsible person: Don Novo
Implementation date: January 2006

Executive Office of Health and Human Services /Office of Medicaid Findings on Compliance with Rules and Regulations

Finding Number 37: Provider Application not Signed by the Office of Medicaid

Two out of 29 selections tested for provider eligibility under the Medicaid program administered by the Executive Office of Health and Human (Executive Office) by the Office of Medicaid (Office) did not have a signed Provider Agreement/ Billing Intermediary Authorization Agreement on file as of the end of the fiscal year (June 30). The agreements were present in the file and completed, but were not signed by Office personnel.

Federal regulation, 42 CFR sections 431.107, requires the provider and the Commonwealth enter into a valid agreement before for the provider begins performing services under the Medicaid program. Under the Uniform Commercial Code, one element of a valid contract is that it is signed by both parties.

The risk that the Office incurs by not signing these documents is that it is not in compliance with federal regulations. (*Department of Health and Human Services – Medical Assistance Program 93.778*)

Recommendation

The Office of Medicaid needs to continue to improve its administrative controls to ensure that all necessary and required documentation is complete and current including a control measure to identify, in advance, those cases whose documentation is incomplete.

Department Corrective Action Plan

During the 1980s-early 90s, there may have been occasions when Medicaid may have had provider agreements on file that were not signed by both the provider and Medicaid. This practice was cited as a finding during a prior single state audit and Medicaid (now the Executive Office) implemented a corrective action plan to assure that provider agreements were countersigned. The Executive Office has since been in compliance with this new policy and procedure. The provider agreement selected was an old provider agreement, consequently, it was not signed after the corrective action plan was implemented. As long as the single audit selections are providers with a lengthy provider history, it is likely that the same problem could arise. However, if selections were made after the CAP was implemented, it is likely that the Executive Office would be found in compliance.

The Executive Office will continue to implement its prior corrective action plan which assures that documentation for new providers and providers under-going re-credentialing is complete and current. The FY06 plan is to implement a re-credentialing initiative in which the Executive Office will verify credentials of existing providers, however, as advised by the Legal department, existing providers will not be re-contracted nor will old provider agreements be retroactively countersigned.

Implementation date: On-going in FY06

Responsible Party: Janice Wadsworth

Executive Office of Health and Human Services /Office of Medicaid Findings on Compliance with Rules and Regulations

Finding Number 38: Improper Claim of Costs Associated with the Virtual Gateway implementation

The Executive Office of Health and Human Services (Executive Office) did not adequately claim costs associated with the implementation of the Virtual Gateway system. Those costs for the quarter ending March 31, 2005 were under claimed by approximately \$210,000.

Since October 2004 the Executive Office has been allocating costs using a newly implemented cost allocation plan which is awaiting approval from federal Center for Medicare and Medicaid (CMS). The Executive Office implemented cost allocation plan software (the software) to properly allocate expenditures across various departments within the Executive Office. The software is run by the Federal Revenues Office. In the case of the Virtual Gateway expenditures, the Federal Revenues Office receives the payroll and non-payroll information that should be claimed from the Information Technology Group (IT) within the Office of Medicaid in order to run the software on those expenditures. This is the only cost pool whose Federal Financial Participation calculation is "decentralized" to another department because the IT department needs to provide additional information in order to perform an accurate calculation within the software. The Federal Revenues Office would add the information received by the IT Manager to the costs to be claimed into the CMS 64 report. The claimed costs associated with Virtual Gateway for the selected quarter amount to \$2.8 million. From a comparison of the total costs associated with the Virtual Gateway reported by the IT Manager and the report generated from the Federal Revenues Office which lists all the expenditures to be claimed during the quarter, it was noted that the Office of Medicaid claimed \$210k less than the actual expenditures for the software implementation. Such under claim was not adjusted in the following quarter from the Federal Revenues Office.

Under the CFR § 95.517 "Claims for Federal Financial Participation" the Executive Office is allowed to use an interim Cost Allocation Plan: "State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA." (*Department of Health and Human Services – Medical Assistance Program 93.778*)

Recommendation

The Executive Office needs to evaluate the methodology that is being used to report the hours spent on the implementation of the system to make them accurate. In case of under/over claiming the Executive Office should adjust the expenditures to proper reflect the actual ones over the following quarter.

Department Corrective Action Plan

EOHHS Federal Revenue Unit will work with EOHHS IT Unit to compare the expenditure information used for Virtual Gateway claiming with the EOHHS cost allocation plan to ensure appropriate claiming. If necessary, EOHHS will adjust claims back to q.e. 12/04. EOHHS Federal Revenue Unit and EOHHS IT Unit will jointly develop a proper method to query expenditures which can be used for Virtual Gateway claiming. Each quarter, the federal revenue analyst will compare the expenditure costs queried by the EOHHS IT Unit and the costs in the EOHHS cost allocation plan to be sure that the costs reconcile. The EOHHS Federal Revenue Unit will incorporate reconciliation procedures into the Cost Allocation Plan manual which is being developed.

Implementation date: January, 2005 - ongoing

Responsible Person: Janice Axelrod, Director of Federal Revenue Claiming

**Executive Office of Health and Human Services
/Office of Medicaid
Findings not Repeated from Prior Years**

1. One out of 23 selections tested during FY 2004 for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department) did not have current Plan of Care and Level of Care documents on file as of the end of the fiscal year (June 30). During testing in FY2005, we did not notify any issues of non-compliance in the current year relating to the DMR Waiver program. *(Fiscal Year 2004 Single Audit Finding 34)*
2. One out of 23 selections tested for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department) did not document that the recipient was notified of their feasible alternatives. During testing in FY2005, we did not note any issues of non-compliance in the current year relating to the DMR Waiver program. *(Fiscal Year 2004 Single Audit Finding 35)*
3. The Executive Office of Health and Human Services (Executive Office) did not adequately follow and monitor the methodology used to determine the amount of federal cash to draw down and as a result, for 4 months of fiscal year 2004, drew down more federal cash than it should have and accordingly will have to pay interest to the federal government. More federal cash than needed was drawn down because the estimates made of the amount of non-federal collection revenue (i.e. rebates, refund, etc) that is used to offset the drawdown of federal cash were significantly less than the actual collection. The Office is in compliance with the regulations governing cash in FY 2005. *(Fiscal Year 2004 Single Audit Finding 36)*
4. The Executive Office of Health and Human Services (Executive Office) needed to implement a process to monitor aged accounts receivable balances so that timely corrective action could be taken where appropriate. The Office implemented accounts receivable policies and procedures in FY 2005. *(Fiscal Year 2004 Single Audit Finding 37)*
5. The Executive Office of Health and Human Services (Executive Office) needed to document the procedures it uses to prepare the GAAP Package required to be submitted annually to the Office of the State Comptroller (OSC) as well as the actuarially developed year-end Medicaid accrual. During FY 2005, the Office documented their required policies and procedures. *(Fiscal Year 2004 Single Audit Finding 38)*

Executive Office of Public Safety Background

The Executive Office of Public Safety (Office) oversees 17 agencies, boards, and commissions. The Office Program Division is the state-planning agency responsible for applying for and administering federal and state criminal justice grants.

The Department of Homeland Security, Office of Domestic Preparedness makes State Homeland Security Grants Funds available to states, which then make sub-awards to state and local units of governments. Through these programs, the Department of Homeland Security provides planning, equipment, training, exercise, and management funding to emergency prevention, preparedness, and response personnel in all 50 states. The Office works in partnership with federal, regional, local and private sector entities to enhance statewide capabilities to detect, prevent, respond to and manage the consequences of acts of terrorism and other critical incidents.

A key federal grant program administered by the Office is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-state efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Office of Juvenile Justice and Delinquency Prevention administers the Juvenile Accountability Block Grant (JABG) program. Through the JABG program, funds are provided as block grants to states that have implemented, or are considering implementation of, legislation or programs promoting greater accountability in the juvenile justice system.

In fiscal year 2005, the Office administered approximately \$332.5 million, of which \$39.4 million was in federal funds. The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Office's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
97.004	State Domestic Preparedness Equipment Support
16.579	Byrne Formula Grant Program
16.523	Juvenile Accountability Incentive Block Grant

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 39: Internal Controls over Federal Draw Downs Need to be Improved

The fiscal year 2004 single audit disclosed that the Executive Office of Public Safety (Office) had spent in excess of \$8.1 million for Homeland Security Programs of which \$7.3 million had not been reimbursed to the Commonwealth. The funds were not reimbursed due to the lack of proper monitoring and not receiving an approved Federal Grant Adjustment Notice (GAN) for removal of three special conditions from a federal grant with the Department of Homeland Security Office of Domestic Preparedness (ODP).

The Office's Programs Division has implemented corrective actions pertaining to the improvement of internal controls over federal drawdowns. The Office indicated that it has developed a bench marking report that can be used to monitor drawdowns of homeland security funds. The report is updated monthly and shows how much money has been spent and drawn down. The Office also developed a database that will track all grants including a section noting special conditions and whether the conditions have been cleared and by whom. The Office expects to use the database beginning in fiscal year 2006.

As a result of these improvements, two out of three of the special conditions (exercise and training funds) were cleared and the third (equipment funds) was reduced to about \$32,000. GAN 5, dated February 4, 2005 (special condition #4) states that "The grantee is prohibited from expending or drawing down the remaining equipment funds in the amount of \$32,000 until the grantee submits a detailed budget worksheet indicating how these funds will be used. When the required documentation has been reviewed and approved by ODP, a grant adjustment notice will be issued. The grantee is reminded that any changes to the approved equipment budgets must be approved by the program office."

As of June 30, 2005 the federal government had not removed this special condition restriction. However, on September 9, 2005 the Office submitted the equipment budget detail worksheet required by GAN 5. The federal review and approval process is still ongoing. The delay from February 4, 2005 to September 9, 2005 in submitting the required information to the federal government appeared to be related to staff turnover. In addition, the Office had to contact the federal government grant manager on the specific information and format to be submitted for this final equipment restriction to be reviewed and approved. The Office has cleared other grant restrictions and has been successful in drawing down other allowable federal fund reimbursements on this grant.

Untimely monitoring review and follow-up of reimbursement from the federal government to the Commonwealth unnecessarily utilizes Commonwealth funds. It also inhibits the Commonwealth from recording reimbursements in a timely manner. (*Department of Homeland Security - State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2004 Single Audit Finding 52*)

Recommendation

The Office should continue to improve its federal grant management system to ensure proper submission, timely follow-up with federal grant managers, and timely receipt of any GANs that are required to remove grant special condition restrictions. This system should include timely reconciliations, supervisory review, and reporting to senior management including transfer of job responsibilities when there is staff turnover. This transfer of responsibilities should require submission of applicable information for GAN approval for timely allowable federal grant reimbursements.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 39: Internal Controls over Federal Draw Downs Need to be Improved (Continued)

Department Corrective Action Plan

The Office will continue to utilize electronic databases to track new grants and grant conditions. In addition to that the office will work with state oversight agencies to quickly identify when Grant Adjustment Notices (GANs) are holding up reimbursements to the Commonwealth of Massachusetts.

Responsible Person: Derek Lennon and Cynthia Duggan

Implementation Date: November 2005

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 40: Improvements Needed over Reconciliations

The fiscal year 2004 single audit report disclosed that the Executive Office of Public Safety (Office) needed to improve the reconciliation process between its own records, the Massachusetts Management Accounting and Reporting System (MMARS) and the U.S. Department of Justice's LOCES system (the federal cash management system).

In response to the prior audit, the Office modified and/or created additional processes to ensure that all funds returned by subrecipients are accounted for and credited to the appropriate funding stream. The Office indicated in its corrective action plan that many changes in the reconciliation process were due to the implementation of the Commonwealth's new MMARS during fiscal year 2005. The reports and spreadsheets the Office previously used were no longer available and no standardized reports were available until April 2005. However, the Office has included the new drawdown process in its internal control guide and will use this process on a go-forward basis. The Office will utilize the accounts payable period to make the proper adjustments and corrections for the first 10 months of fiscal year 2005.

While the Office has taken some corrective action there is a need for improvement. Specifically, our tests of selected transactions disclosed the following:

- One expenditure of \$5,717 was charged to the Byrne Grant during October 2004 in error. The Office identified and resolved the error in January 2005.
- A duplicate payment of \$5,854 was paid to a town from the fiscal year 2002 Juvenile Accountability and Incentive Block Grant (JAIBG). The Office has contacted the town and has initiated recovery of these funds.
- A subrecipient issued a \$5,228 expenditure refund to the Office on February 17, 2005. The subrecipient stated that a review of their records identified these funds as a fiscal year 2001 Byrne Grant overpayment. These funds were not deposited to the Office's account until March 8, 2005. The Office appropriately credited the funds to the fiscal year 2002 Byrne Grant because the fiscal year 2001 Byrne Grant had already been closed.

The Office of the State Comptroller's, Internal Control Guide for Departments, Chapter Three, Revenue, states in part:

Collected Revenue: Collected revenues are those that are paid to the department at the point where a service/good has been provided. The department should develop internal controls to ensure that staff who collect or process revenue understand the requirements of state finance law as well as governing policies and procedures issued by the Office of the Comptroller and/or the department. The staff responsible for recording collected revenue should carefully document all revenue activity in accordance with sound management practices and all governing policies. Collected revenue should be deposited into a Commonwealth account on a daily basis. Deposits should be reconciled daily by an individual independent of the collection process. Collected revenue should be reconciled monthly to the state accounting system records and to the monthly bank statement.

Collected revenue should be credited to appropriate revenue source and fund, as authorized in statute.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 40: Improvements Needed over Reconciliations (Continued)

Massachusetts General Law Chapter 30, Section 27 states in part:

Except as otherwise expressly provided,...money received on account of the commonwealth shall be paid daily into the treasury thereof...

Untimely or inadequate reconciliations can result in incorrect or invalid entries being made to the Commonwealth's accounting system and the inability to identify all revenues that are due to the Commonwealth. It could also lead to inaccurate reporting of federal funds received and discrepancies between grants, resulting in ineligible draw downs and reimbursement of funds to federal agencies. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Block Grant Program 16.523; Department of Homeland Security – State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2003; 2004 Single Audit Finding 50*)

Recommendation

The Office should continue efforts to perform timely reconciliations of all accounts as is required. The reconciliation process should ensure that all funds are tracked, accounted for and deposited in a timely manner, and reflect accurate balances as required by OSC requirements, laws, and regulations. Also, the Office should review and make the appropriate adjustments for the first ten months of fiscal year 2005.

The Office should establish subrecipient contract conditions that require the return of all funds received in excess of the allowable contract expenditures. This contract condition and the proper procedure to forward funds to the Office for proper credit to their grants should be addressed in training and directives to the subrecipients.

Department Corrective Action Plan

The EOPS will continue to utilize the reconciliation procedures established in the internal control plan. The Programs Division will update and add a policy that requires Programs Division staff to make every attempt to deposit revenue on a daily basis, thus enforcing the necessity for timely deposits. The office will reiterate and stress at future sub-grantee trainings the importance of operating strictly on a reimbursement basis. EOPS staff already advises sub-grantees that excess cash should be returned immediately, but will disburse a policy to sub-grantees relative to the procedures for returning funds to the Programs Division.

Responsible Person: Derek Lennon

Implementation Date: November 2005

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 41: Monitoring of Subrecipients Needs Improvements

The fiscal years 2002, 2003 and 2004 single audit reports disclosed that the Executive Office of Public Safety (Office) needed to improve its financial monitoring procedures over subrecipients to ensure federal funds are spent in accordance with contract requirements and to ensure that subrecipients have adequate systems of accounting and internal controls. The fiscal year 2004 single audit disclosed that while the Office made progress in subrecipient monitoring, policies and procedures still need to be enhanced to (1) identify and monitor the subrecipient's audit reports that are required to be submitted in accordance with OMB Circular A-133 and (2) require on-site visits of subrecipients to determine if the subrecipients were monitoring the work of their independent accounting firms.

Our follow-up audit disclosed that the Office conducted financial monitoring activities by reviewing quarterly financial and programmatic reports submitted by subrecipients, conducting on-site programmatic and financial reviews and discussing various topics by telephone. The Office also conducted educational seminars for subrecipients outlining the reporting and documentation requirements as well as providing overall guidelines to assist subrecipients.

The Office also receives A-133 audits reports from some subrecipients but does not evaluate these reports or issue management decisions on the audit findings. The Office does not have a system in place to determine which subrecipients are required to have an A-133 audit.

The Office disburses federal funds to subrecipients for the Byrne Formula Grant, Juvenile Accountability Block Grant, and State Domestic Preparedness Equipment Support programs. According to OMB Circular A-133, Subpart D, Section 400 (d)(3) and (b)(5), the responsibilities of pass-through entities include:

Monitoring the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved.

Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipients take appropriate and timely corrective action.

With regard to the A-133 audit reporting requirement, all the Office's federal grant application instructions include a "Sub-grantee Requirements" section stating:

Local units of government whose towns or municipalities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of the Office of Management and Budget's circular A-133. Applicant local units of government must submit a copy of their [most recent Fiscal Year] audit along with their grant applications.

In response to the prior audit, the Office said it would develop a process to track A-133 audit reports and that the process would include issuing management decisions on audit findings within six months. Our follow-up audit disclosed that the Office received subrecipient A-133 reports, but due to insufficient staffing, did not review the reports, therefore, no one determined whether there were findings or reportable conditions which should have been followed up on in accordance with A-133.

With regard to desk reviews and site visits, the Office needs to better document its follow-up of issues discovered during the reviews. Issues with respect to equipment ordered and not delivered were identified but there was no evidence of a follow-up to determine whether the equipment was subsequently received.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 41: Monitoring of Subrecipients Needs Improvements (Continued)

By not knowing which of its subrecipients are required to have an A-133 audit and by not reviewing A-133 audit reports, or issuing timely decisions on subrecipient A-133 findings, the Office cannot be assured that federal awards are used in compliance with contracts, laws, and regulations, or that fiscal records are being maintained properly and that subrecipients have adequate systems of accounting and internal controls. In addition, by not following-up on issues determined during the desk reviews and site visits, there is no assurance that the subrecipients have expended funds for the intended use. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Block Grant 16.523; Department of Homeland Security -- State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2002; 2004 Single Audit Finding 48*)

Recommendation

The Office should:

- Review its personnel duties and responsibilities in order to ensure the review of each subrecipient's A-133 financial statements, audit findings, and corrective action plans.
- Take appropriate and timely corrective action to issue management decisions on audit findings within six months of receipt of subrecipients' audit reports.
- Complete all desk review and site visit worksheet questions and follow-up by indicating the action areas required to be completed and the timetable for completion.
- Require follow-up of the desk review and site visit worksheets of non compliance areas identified to determine if the subrecipient took necessary timely and adequate follow-up actions, such as, receiving all equipment purchased but not delivered.
- Develop a system to determine which subrecipients are required to have an A-133 audit.

Department Corrective Action Plan

The Office has developed an A-133 self-identifying sheet for sub-grantees to submit with all future contract packages. The sheet requires the sub-grantee to identify to EOPS the following: if the sub-grantee was required to have an A-133 report within the last year; any findings related to EOPS funds; the original date of the finding; the status of the Corrective Action Plan; and a copy of the corrective action plan. We have submitted the form to the DOJ, OJP compliance monitoring unit for approval, and received email confirmation that the form is sufficient for identifying and reviewing sub-grantee A-133 reports. The office will not sign or enter into a contract with a sub-grantee prior to having an A-133 and self-identifying form submitted. The office will review each form submitted and will evaluate the corrective action plan as well as the status of it, and issue a written management decision to the sub-grantee. As stated in the form, failure to comply with implementing Corrective Action Plans could result in a loss of funds administered by EOPS.

The Office will email sub-grantees the results of their site visits and whether there are any required follow-up actions. A copy of the email will be placed in the program file.

Responsible Person: Derek Lennon
Implementation Date: November 2005

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 42: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (Continued)

The fiscal year 2003 and 2004 single audit reports disclosed that the Executive Office of Public Safety (Office) was not in compliance with OMB Circular A-87 requirements because it did not maintain personnel activity reports and did not have a cost allocation system to compare actual employees' hours to hours charged to the program. As a result our audit questioned \$512,367 in fiscal year 2004 in salaries, fringe benefits and indirect costs that were charged to the Byrne Formula Grant (BFG), Juvenile Accountability and Block Grant (JABG), and Homeland Security Grants (HSG) I and II.

OMB Circular A-87 states, in part:

Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentation must meet the following standards including: a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more periods, and d) They must be signed by the employee.

Our follow-up review disclosed that the Office implemented new policies and procedures to provide proper supporting documentation for all salaries and related costs that complied with OMB Circular A-87 requirements. However, the new policies and procedures were not implemented due to insufficient staffing. The Office indicated that "Due to NewMMARS and additional staff turnover in the position identified to be responsible for tracking percentage changes as written in by staff, the EOPS did not monitor employee sign in for the" period July 1, 2004 through March 5, 2005. For the period July 1, 2004 through March 5, 2005, the Office used a manual process to charge salary and related costs charged to federal grants. The costs charged were those budgeted but were then compared with actual on a monthly basis to determine if adjustments were necessary. In addition, these allocations were later confirmed by letter, on an employee-by-employee basis, attesting that the allocation used reflected the actual time which should have been charged to the federal grants.

While we acknowledge that the process implemented for July 1, 2004 to March 5, 2005 allows the Office to conclude that the proper salaries and related costs were charged to federal grants, it was not strictly in compliance with OMB Circular A-87

Beginning in March 2005 the Office reestablished a policy of employee weekly confirmation of time allocated to programs. This is the same weekly process implemented in response to the prior years' audit reports. The process, however was not adhered to and the Office did not take timely action to ensure that duties of employees responsible for monitoring were continued when there was staff turnover or changes to the accounting system. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Block Grant 16.523; Department of Homeland Security - State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2002; 2004 Single Audit Finding 45*)

Recommendation

The Office should continue to comply with the provisions of OMB Circular A-87, and develop a systems solution to the process of charging actual salary and related costs to federal grants in order to avoid reliance on a manual process. Because of the recurring nature of the issue, it is imperative that the Office ensure that there is continuity for employee turnover and system changes.

Executive Office of Public Safety Findings on Compliance with Rules and Regulations

Finding Number 42: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (Continued)

Department Corrective Action Plan

The EOPS will continue to require weekly personnel activity reports, initialed by both employee and supervisor, which surpasses the OMB Circular A-87 requirement of monthly personnel activity reports. The office will compare employee activity reports to the automated LCM budgeted information on a quarterly basis. Where employee actual activity differs by greater than ten percent to budgeted activity, adjustments will be entered into the accounting system. At the completion of the fiscal year, EOPS will compare actual activity reports to yearly budgeted amounts and make a final adjustment to ensure that the agency salary allocations reflect actual work performed.

Responsible Person: Derek Lennon
Implementation Date: November 2005

Executive Office of Public Safety

Findings not Repeated from Prior Years

1. The Office was not in compliance with the standard contract requirements for payments made within the service contract dates. Payments were made to a municipal police department for the establishment of a Drug Task Force outside the service contract dates. The Office continues to use its 15-step bill paying process to ensure that payments are made within the periods covered under the contract or contract amendments. A review of selected test transactions during the fiscal year 2005 single audit did not disclose any similar issues. (*Fiscal Year 2004 Single Audit Finding 44*)
2. The Office and their subrecipients did not process federal funds within a timely period resulting in fiscal year 2004 excess federal funds totaling \$1,948,239. The Office developed internal reports and worked with the Office of the State Comptroller to ensure that funds are credited to the appropriate federal grant. A review of transactions during the fiscal year 2005 single audit did not disclose any issues. (*Fiscal Year 2004 Single Audit Finding 46*)
3. The Office paid federal funds to subrecipients for the reimbursement of administrative expenses without sufficient documentation supporting the expenditures resulting in questioned cost of \$3,304,957 in the Homeland Security, Byrne Formula Grant and the Juvenile Accountability Incentive Block Grant programs. The Office updated its requirements for reimbursement and supporting documentation and developed an educational tool that notifies subrecipients of the documentation to be submitted to EOPS for reimbursement, as well as the documentation to be maintained at the subrecipient level for inspection during fiscal and programmatic site visits. Office personnel intend to use this schedule for the next funding cycle of grants. The Office conducted on site reviews to determine that the obligations came due within the required period. (*Fiscal Year 2004 Single Audit Finding 47*)
4. Financial managers who have signatory authority at the Office approved payment vouchers after the payment was made and entered into the Massachusetts Management Accounting and Reporting System (MMARS). The Office continues to use its new policies that were implemented February 1, 2004, to be consistent with the OSC's bill paying policies, to process payments after the appropriate signature approval. (*Fiscal Year 2004 Single Audit Finding 49*)
5. During the FY 2003 single audit, it was revealed that former Office employees and subrecipients were the subject of a federal investigation. The investigation concerns the Byrne Formula Grant funding received during the tenure of those employees. During FY 2003, the Office expended \$10,999,270 in Byrne Formula Grant funds. The Office indicated in its Status of Prior Years Audit Findings that no further action is required because two years have passed since the finding was submitted to the federal government and the federal government is not following up on the finding and has not issued a management decision. OMB Circular A-133, Section 315 (b)(4) states:

When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred: Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse; The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and A management decision was not issued. As a result in accordance with A-133 this finding is no longer valid and does not warrant any further action. (*Fiscal year 2004 Single Audit Finding 51*)

Massachusetts Emergency Management Agency Background

The Massachusetts Emergency Management Agency (MEMA) was established under the Civil Defense Act, Chapter 639 of the Acts of 1950. Chapter 6A, Section 18, of the Massachusetts General Laws, placed MEMA within the Executive Office of Public Safety (EOPS). MEMA is responsible for coordinating federal, state, local, and private resources to protect the public during disasters and emergencies. MEMA's function is to: 1) help develop plans for effective response to all forms of threat from natural or technological hazards, such as hurricanes, winter storms, floods, fires, hazardous material incidents, tornadoes, earthquakes, nuclear accidents, or terrorism; 2) train emergency personnel to protect themselves and the public, and 3) assist individuals and communities in recovering emergency-related losses. MEMA's resources network includes public health and safety officials; emergency workers; fire, police, public works, and transportation officials; nonprofit and volunteer agencies private businesses and industry; and federal agencies.

For fiscal year 2005 MEMA administered approximately \$32 million in Federal Public Assistance Grant funds.

The Agency's major federal program was:

<u>CFDA#</u>	<u>Federal Program Description</u>
93.658	Federal Public Assistance Grant Program

No findings resulted from our audit of this federal award program.

Massachusetts Highway Department Background

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs and maintains the state highway system, which consists of approximately 9,505 lane miles of highway and 2,900 bridges. To accomplish this, the Department operates approximately 122 maintenance facilities located throughout the state, including administrative offices, garages, and repair and storage buildings. Most of the facilities are small and serve maintenance needs.

During fiscal year 2005, the Department administered appropriated funds of approximately \$31 million. In addition, the federal government on a reimbursement basis provided about \$424 Million.

The federal funding to the Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
20.205	Highway Planning and Construction

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 43: Subrecipient Identification and Award Documents Need Improvement

The Massachusetts Highway Department (Department) needs to continue to improve its system for identifying, and communicating to subrecipients thereby ensuring compliance with the provisions of the Single Audit Act Amendments of 1996.

Section 7502 (f)(2) of the Single Audit Act Amendments of 1996 (Act), states that each pass-through entity shall provide subrecipients with the program name and identifying number as specified in the *Catalog of Federal Domestic Assistance* (CFDA) as well as the federal requirements, which govern the use of such awards.

A subrecipient is an entity that expends federal awards received from a pass-through entity, such as the Department, to carry out a federal program. OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the implementing regulations of the Act, indicates certain characteristics that should be considered in identifying subrecipients. For instance, subrecipients assume the responsibility for making programmatic decisions as well as complying with applicable federal requirements. Their performance is measured in terms of meeting the federal program's objectives rather than just providing goods or services to the Department. Vendors are those entities, which provide goods and services to many different purchasers within their normal business operations. They operate in a competitive environment; and/or provide goods or services that are ancillary to the operation of the federal program. Vendors are not subject to Single Audit requirements. Not informing the subrecipients that they are receiving federal awards can affect the type of audit they should obtain.

During a review of some new agreements the Department has with other component units of state government, it was noted that in four (4) instances the Department treated these entities as vendors. Additionally, two (2) other older agreements extended during the year with an increase in funds were also treated as vendors. The funds awarded under these agreements had the characteristics of a pass-through-subrecipient relationship.

While the Department has made an effort to identify subrecipients that are municipalities, there continues to be some uncertainty as to the type of activity and entity that may qualify as an award to a subrecipient, which is part of the Commonwealth but not accounted for in MMARS. Payments to other governments are often coded as design or construction indicating that the Department is undertaking those activities rather than delegating the responsibility to those entities. In addition, award documents at times do not inform recipients of all applicable requirements, when the Department plans to seek reimbursement under federal programs. The Department estimated that approximately \$4.7 million or 1 percent of the \$480 million in payments made under the State Roads and Bridges Program were made to other governments and non-profit organizations in fiscal year 2005 that could be construed as subrecipients. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999; 2004 Single Audit Finding 26*)

Recommendation

The Department should continue its efforts to identify subrecipients. All new and amended contracts with other governments including component units of the Commonwealth should be reviewed by one bureau within the Massachusetts Highway Department to ensure all federally funded agreements or extensions the Department enters into are properly classified as either vendors or subrecipients, as defined by OMB Circular A-133 (Circular). This review would also determine whether all the agreements contained contract language, which includes the program name and identifying number for the various types of awards it passes through as well as the applicable federal requirements.

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 43: Subrecipient Identification and Award Documents Need Improvement (Continued)

Department Corrective Action Plan

MassHighway is using standard contract language in all subrecipient agreements, including program name, identifying CFDA number, and audit requirements, with a few exceptions as noted in the audit finding. Two agreements that were cited in the audit for not containing the standard contract language for subrecipients were amendments to an older agreement that did not contain the standard language. It was an omission on the contract manager's part not to include the standard contract language for subrecipients in the amended agreement. Additionally, MassHighway entered into an agreement with a public authority that was not identified as subrecipients. It was the opinion of the contract manager that these agreements were a vendor relationship, not a subrecipient. Planning and Highway Engineering will continue to make the determination as to whether a contract or agreement should be classified as a vendor or subrecipient. The Chief Counsel's office will verify that the contract language is appropriate for a subrecipient before it goes to the Commissioner for signature.

Responsible Person: Sue Bristol, Undersecretary (EOT)

Implementation Date: 11/01/2005

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 44: Proceeds from the Sale of Federally-Funded Property not Deposited or Transferred on a Timely Basis

The Massachusetts Highway Department (Department) did not deposit the proceeds from the sale of property acquired with federal awards on a timely basis. In addition, there was a delay in transferring \$296,915 to the Massachusetts Highway Trust Fund.

The Common Rule as stated at Title 49 of the *Code of Federal Regulations* for the U.S. Department of Transportation Section 18.31 “Real Property” permits the Department to sell property previously purchased with federal funds. Under 23 USC 156, the federal share of the proceeds from property purchased with awards from the Highway Trust Fund can be used to fund other eligible highway projects. The Department makes those funds available to other eligible highway projects by transferring the federal share of the proceeds to Fund 290, the Massachusetts Highway Trust Fund. When the Right-of-Way Bureau receives checks from the sale of real estate it forwards them to Fiscal Management for deposit. A Department policy requires that transfers to the Highway Trust Fund must occur within 30 days of being received by Fiscal Management. It is also the Commonwealth’s policy to deposit all checks within one day of receipt.

During testing for fiscal year 2005, it was noted that 4 of the 5 checks selected from real estate sales were not deposited within 1 business day. Those checks were held from 2 to 7 business days before being deposited. In addition, transfers to the Highway Trust Fund totaling \$296,915 were not made within 30 calendar days for all 5 items tested. The transfers took 37, to 137 days. Department personnel stated that delays occurred in processing transactions while learning and implementing New MMARS. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should streamline the time between the receipt of a check for the sale of real property and its deposit into the Commonwealth’s accounts. All checks should be deposited within one day of regardless of whether complete information is available concerning the federal-aid project number. In addition, every effort must be made to transfer the funds to the Highway Trust Fund within 30 calendar days.

Department Corrective Action Plan

The Department is a large agency that receives and processes a large number of checks every day. The Department has made great improvements in assuring checks received by the Department are deposited within one day as required by the policy of the Office of the Comptroller. The Right of Way section currently hand delivers their checks for the sales of land to a responsible Fiscal person. Also, if there are issues with the checks received, we are making copies of the checks and getting them deposited while we work on resolving the issues. We are also working with our IT section to update our check login system.

With the implementation of New MMARS there was some confusion at the beginning of the Fiscal Year as we became accustomed to the new forms and procedures. This confusion has been alleviated. Additionally, some of the delays in transferring to the Highway Trust fund involve issues with DCAM that need to be resolved before we can make the transfer. We will expedite the resolution of issues with DCAM and assess the possibility on a case by case basis of processing the transfer “as is” while working on a viable solution.

Responsible Person: Glenn Behmer, Director of Revenue
Implementation Date: 11/01/2005

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 45: Documentation of Debarment and Suspension Compliance Needs Improvement

The Massachusetts Highway Department (Department) could not provide 5 of 17 debarment and suspension certificates for construction contractors.

Under Title 49 Part 29 of the U.S. Department of Transportation's *Code of Federal Regulations*, the Department is prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred at the time the contract is executed. Covered transactions include procurement contracts for goods or services equal to or in excess of \$25,000 (\$100,000 prior to November 26, 2003) and all nonprocurement transactions e.g., federal awards to subrecipients. All subrecipients and applicable contractors receiving individual awards as specified above, must certify that the organization and its principals are not suspended or debarred. The Department may rely upon the certification unless it knows that the certification is erroneous. The Commonwealth requires all departments to obtain such a certificate.

To ensure compliance, the Massachusetts Highway Department requires its potential construction contractors to submit a signed statement indicating the organization is not debarred or suspended from performing work of any kind by any federal agency or authority. This statement is obtained on a yearly basis during the pre-qualification process for a contractor to become eligible to submit proposals. The Department does not have to comply with Title 801 Part 21.00, *Code of Massachusetts Regulation* and the "Procurement Policies and Procedures Handbook," since they exempt horizontal construction, e.g. roads, bridges, tunnels. As a result, those participating in horizontal construction activities do not complete the Commonwealth's Terms and Conditions, which requires the contractor to certify that it is not suspended or debarred from federal procurements.

Of the 25 expenditures selected for testing, 17 expenditures related to 16 construction contracts. The Department could not locate four (4) of the 16 debarment and suspension certificates relating to those contracts. Department staff indicated that the information obtained during the prequalification process was destroyed due to the lack of space. The Commonwealth's record retention policies pertaining to construction contracts require that records be maintained for seven years after the final contract payment. None of the contractors tested were currently on the federal debarment and suspension list. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should instruct all bureaus awarding contracts to retain federal debarment and suspension certificates obtained as part of the prequalification process in accordance the Commonwealth's record retention policies so they are available to demonstrate compliance.

Department Corrective Action Plan

The Department identified this issue in November of 2004. Prior to 2004, some records were being destroyed prematurely in the Prequalification section. Since 2004 the Department has maintained all records as per the Commonwealth's Records Retention Schedule. Therefore, because we are unable to recreate the destroyed records, we could be at risk for this finding in future years. However, any new contracts since November of 2004 will have all the complete information.

Responsible Person: Michael Schwartz, Construction Contract Engineer
Implementation Date: November 2004

Massachusetts Highway Department Findings not Repeated from Prior Years

1. The Department paid construction contractors before receiving certified payrolls. In addition, some payroll submissions did not contain a Statement of Compliance. During the year, the Department received the certified payrolls and Statement of Compliance prior to paying the construction contractors. (*Fiscal Year 2004 Single Audit Finding 27*)
2. The Department did not properly record payroll and accrued vacation, which resulted in an under billing of \$130 to federal programs and an over accrual of vacation time. In another instance, there was an erroneous \$180 posting of relocation expenditures resulting in an under billing to the federal government. During the year, the Department properly recorded the accrued vacation and relocation expenditures. (*Fiscal Year 2004 Single Audit Finding 28*)

Various Departments

Finding not Repeated from Prior Years

1. The major programs at the Office of Child Care Services (Office) were not audited as part of the fiscal year 2005 single audit, but a follow-up of the prior year audit finding was performed. The Office did not have adequate internal controls for the use, review, and payment of cell phone bills. The Department updated its internal controls to establish procedures regarding the proper usage of cell phones, including that no personal calls are allowed. Also, a quarterly review process was implemented whereby the Assistant Director of Audit Resolution reviews cell phone bills for proper usage, timely payment, proper accounts being charged, and issues a report to management that includes the scope and results of the review. (*Fiscal Year 2004 Single Audit Finding 53*)

Commonwealth of Massachusetts

Higher Education

Student Financial Assistance Programs at Other Institutions

Background

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Mass. Maritime Academy
Mass. College of Art
Mass. College of Liberal Arts
Salem State College
Westfield State College
Worcester State College

Community Colleges

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massasoit Community College
Mass. Bay Community College
Middlesex Community College
Mt. Wachusett Community College
North Shore Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

During fiscal year 2005, the Office of the State Auditor performed the audit of the student financial assistance programs at four institutions selected using the risk-based approach. These institutions were: Middlesex Community College, Massachusetts College of Liberal Arts and Bridgewater State College. As a result of these audits, findings are presented for Middlesex Community College and Bridgewater State College. A fiscal year 2004 finding for Roxbury Community College is also repeated here.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for fiscal year 2005 with an independent public accounting firm. Separate reports on compliance, internal controls as well as the Schedule of Expenditures of Federal Awards and Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

Finding Number 46: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program

The fiscal year 2004 single audit disclosed that Bridgewater State College (College) was not timely in conducting exit counseling sessions with students and complying with the due diligence requirements regarding the coordination of information among its departments that manage and administer Federal Perkins Loans (FPL). The prior report noted that it took four months for the College's Perkins Loan Department (PLD) to convert to repayment status the six students in our audit test who were no longer enrolled at least half time. Furthermore procedures were not in place by the College to ensure that students received proper notification and exit counseling for their Perkins Loan repayment responsibilities.

Our follow up audit disclosed that the College has made some improvements in its policies and procedures over student loans, however, improvements are still needed in coordination of student enrollment data and the timely scheduling of exit counseling.

Specifically, our test of six student files disclosed that one student withdrew from the College in the middle of the Spring Semester 2005 and had not been given an exit counseling session as of August 2005, nor had the Loan Management Company been notified of the student's separation from the school. In addition, the PLD was unaware of the student's early withdrawal until it was brought to their attention during our audit. Federal regulation, 34 CFR 674.42(b), Exit Interview states:

(1) An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution.

Also, the Student Financial Aid Department did not notify the PLD of the student's early withdrawal resulting in the College not meeting the due diligence requirements applicable to the coordination of information mandated for the FPL program. Federal regulation, 34 CFR 674.41, Due Diligence -General Requirements states:

(b) Coordination of information. An institution shall ensure that information available in its offices (including admissions, business, alumni, placement, financial aid and registrar's offices) is provided to those offices responsible for billing and collecting loans, in a timely manner, as needed to determine-

- 1. The enrollment status of the borrower;*
- 2. The expected graduation or termination date of the borrower;*
- 3. The date the borrower withdraws, is expelled or ceases enrollment on at least a half-time basis; and*
- 4. The current name, address, telephone number and Social Security number of the borrower.*

By not having effective procedures in place the College delayed the student from entering their proper grace period prior to beginning their repayment of the loan. These delays caused the student to be given an extended six-month grace period for repayment of their Perkins loan. According to 34 CFR 674.31 (b) 2(B) the repayment period begins 9 months after the borrower ceases to be at least a half-time regular student at an institution of higher education. Furthermore, the 2004-2005 Federal Student Aid Handbook, Chapter 4, Volume 6, Perkins Loans, requires that the initial grace period begin the day after the day the borrower drops below half-time enrollment.

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 46: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program (Continued)

Because the College did not exercise due care and diligence in managing and administering the FPL program it compromises the federal government's ability to effectively administer these Title IV loans because accurate enrollment status information is the foundation on which the federal government determines deferment eligibility, grace periods, repayment schedules, and the government's payments of interest subsidies. (*Department of Education - Federal Perkins Loans 84.038; Fiscal Year 2004 Single Audit Finding 60*)

Recommendation

The College must ensure that its departments coordinate accurate changes in student enrollment information on a timely basis, students are notified timely of their repayment responsibilities, students are given timely exit counseling, and students are placed in proper grace period and repayment status.

Department Corrective Action Plan

The College concurs with the finding. The Financial Aid and Fiscal Affairs offices are working on formalizing all policies and procedures relating to the two areas. We have made significant progress regarding policies and procedures for exit counseling of students, but acknowledge that additional reports are required to ensure proper exit counseling.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller, and Janet Gumbri, Director of Financial Aid

Implementation Date: June 30, 2006

Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

Finding Number 47: Submission of Federal Work-Study Timesheets Needs Improvement

The fiscal year 2004 single audit report disclosed that Bridgewater State College (College) discovered fraudulent timesheets within its Federal College Work-Study Program (FWS) resulting in a theft of \$998. A student submitted false timesheets to the College's payroll department for work that was not performed during four weeks of the 2003 spring semester and during six weeks of the 2004 spring semester. The student perpetrated this fraud by forging the signatures of the supervisors of the FWS programs for which he was employed.

In its corrective action plan, the College stated that "As a part of updating the Internal Control Plan, the Office of Human Resources will revise the policies and procedures surrounding the FWS Program and to ensure compliance the updated policies and procedures will be communicated to all College departments participating in the FWS Program."

Our follow-up audit disclosed that the College updated its policies and procedures for the FWS Program. Included in these updates were steps to improve monitoring the awards to students, the status of the awards as the academic year progresses and the monitoring of timesheets for authorized signatures. These new policies and procedures require that authorized staff deliver student timesheets to the FWS office (not the students), timesheets are only written in pen, and an authorized signature list is maintained by FWS office staff to ensure all signatures are authorized. The updated policies and procedures were communicated to all College departments participating in the FWS program and staff was advised of their responsibilities with regard to payroll policies and procedures and student employee practices.

To determine if the internal controls were functioning as written, three fiscal year 2005 pay periods were tested. Our tests disclosed that department staff was not following the new policies and procedures. Specifically, we observed students directly submitting signed timesheets contrary to the College's FWS Policy Manual. Furthermore, our testing 1,060 timesheets disclosed the following:

- 79 timesheets had been written in pencil and had been signed by a supervisor. The College could not determine who brought the timesheet to the FWS office.
- 15 timesheets were altered with no indication of who had altered them (hours were changed by using white out and the change was not initialed). There was no evidence that the altered timesheet had been approved before or after they were submitted to the supervisor.
- 5 timesheets were for over 20 hours, which is contrary to the FWS policy that prohibits a student from working over 20 hours per week.
- 83 timesheets were not submitted on the College's required pre-printed timesheets. The College accepted these timesheets without the payroll systems pre-printed feature, which includes the pay period, pay rate, employee identification number, return date, accounts to be charged and the student's classification title. Students were allowed to fill in the control information and submit timesheets to the payroll office, thus circumventing the College's internal controls. New students were not required to use the pre-printed timesheets for their initial pay period, however, the timesheets we tested were for students working beyond their initial pay period. The College's FWS Policy Manual does not permit handwritten timesheets.
- 2 timesheets had been submitted by one student for the same pay period resulting in an overpayment of \$201. Even though the student was paid twice for the same pay period, the duplicate payment did not cause the student to exceed the FWS award. However, the student was paid for hours not worked. We notified the College of this occurrence and they are reviewing this matter.

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

**Finding Number 47: Submission of Federal Work-Study Timesheets Needs Improvement
(Continued)**

- 7 timesheets could not be located by the College.
- An authorized signature list was not maintained for FWS timesheets; as a result, the College could not be certain that all signatures were those of authorized staff.

Further, the College did not have a system in place to ensure that no one is paid for hours not worked and no one works more than 20 hours per week. The College is required by 34 CFR 675.19 (2)(i), as cited below, to establish fiscal procedures in order to have safeguards in place over the certification of student's FWS program work prior to making a payment to the student.

Include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day...

The College's Student Employment Manual also states in part that:

The supervisor is responsible for submitting timesheets to the Payroll Office by noon on the due date in order to produce a paycheck by the next Friday. The due date is five days after the end of the pay period. This allows the student ample time to have the timesheet completed and submitted with the authorized signature(s). It is the student's responsibility to get the timesheet to his or her supervisor to be signed. Once signed it is the supervisor's responsibility to submit all timesheets. Student employees will not be paid without a signed timesheet.

The College's Controller stated that the College plans to revise the student handbook concerning the FWS program, further develop controls to enforce policies and procedures in the FWS Manual and to more closely monitor student timesheets and their submission. (*Department of Education - Federal Work-Study Program 84.033; Fiscal Year 2004 Single Audit Finding 58*)

Recommendation

The College should review and improve its internal controls within its FWS program. Procedures must be established to ensure that internal controls are functioning as intended. These internal controls must be extended throughout all College departments participating in the FWS program. College staff should again be advised of their responsibilities with regard to payroll procedures and student employee practices. The College should periodically monitor adherence to these procedures and provide ongoing oversight to prevent conditions cited from recurring.

Department Corrective Action Plan

The College concurs with this finding. We recognize that any Internal Control Plan is a dynamic document and we will continue to revise and review all internal controls relating to the Work Study program.

To ensure compliance within the Program, the College will periodically perform internal audits of the Work Study Program.

Responsible Person: Peter Martel, Associate Vice-President for Human Resources, and Darlene Costa-Brown,
Associate Vice-President For Fiscal Affairs/Controller

Implementation Date: June 30, 2006

Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

Finding Number 48: Cash Management over Perkins Loans Needs Improvement

Bridgewater State College (College) awarded \$1,394,000 in Federal Perkins Loans (FPL) for the 2004/2005 academic year, however, the College only had \$854,000 FPL funds available to award resulting in \$540,000 in College funds being disbursed for the FPL program.

The FPL program is a campus based loan program funded with three sources of revenue (1) by direct federal contributions, (2) college contributions equaling at least one third of the federal contribution, (amounting to approximately \$48,627 for the 2004/2005 academic year), and (3) school level loan collections and other program income. Prior to the award year on the annual Fiscal Operations Report and Application to Participate (FISAP), the College is required to calculate its level of expenditure (LOE) for the two preceding award years. Based on the calculation, the U.S. Department of Education (ED) awards the College the federal contribution (FCC). The LOE calculated by the College was \$1,500,000. The LOE is the maximum dollar amount that ED allows a school to expend from the school's loan fund in a given award year. The Blue Book, Chapter 3 states:

The LOE equals the total of Federal Capital Contribution (FCC), Institutional Capital Contribution (ICC), funds available from the school's projected collection of Federal Perkins Loans in repayment, estimated Perkins Loan cancellation reimbursements, and anticipated cash on hand (FCC + ICC + collected loans + cancellation reimbursements + cash on hand = LOE)

Our audit disclosed that the College was unaware of accurate FPL expenditures because it did not perform monthly reconciliations of its fiscal and program records and therefore made loans exceeding the funds available. In addition, the College could not provide documentation supporting the LOE calculation submitted on the 2003 FISAP for the 2005 award year. Federal regulation, 34 CFR Section 674.19, Fiscal Procedures and Records states:

(1) An institution shall establish and maintain program and fiscal records that are reconciled at least monthly. (2) Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary.

In addition, Chapter 2 of The Blue Book states;

Although it is important to keep original records used in processing financial aid, schools must also have a recordkeeping system that traces transactions involving those records. A school's recordkeeping procedures should allow for establishing and maintaining a clear (easily followed) audit trail. A clear audit trail is defined as maintaining required documentation that supports each transaction involving receiving or expending federal funds. A school may maintain records in a manual, paper-based system or in a computer database, or it may use a combination of these methods. For example, a school that uses an automated system to manage records might also maintain paper files that contain original documents needed to support the electronic information stored in a database. As imaging technology becomes more available, schools might choose to maintain electronically imaged documents instead of paper originals.

The College did not meet cash management requirements applicable to the coordination and managing the FPL program because it did not perform monthly reconciliations of program records to the fiscal records and did not properly establish and maintain clear documentation supporting the LOE amounts reported on the FISAP. This inadequate management system could deny future students the opportunity to obtain the loans necessary for them to attend the College. (*Department of Education - Federal Perkins Loans 84.038*)

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

**Finding Number 48: Cash Management over Perkins Loans Needs Improvement
(Continued)**

Recommendation

The College must ensure that the Perkins Loan fund is not over expended in the future by performing monthly reconciliations between program and fiscal records, accurately calculating the LOE and establishing and maintaining clear audit trails that support each transaction and calculation.

Department Corrective Action Plan

The College concurs with this finding. The Fiscal Affairs and Financial Aid offices have developed more formal coordination with regards to the Perkins Loan Program. In addition, the Internal Auditor will assist in properly documenting procedures surrounding the Perkins Loan Program.

It should be noted that the LOE is based upon estimated collections from the previous fiscal year. For fiscal year 2005, student repayments were lower than expected. Because of new consolidation options for students, the College anticipates student repayments to increase in fiscal 2006.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller and Janet
Gumbris, Director of Financial Aid

Implementation Date: June 30, 2006

Institutions of Higher Education Middlesex Community College Findings on Compliance with Rules and Regulations

Finding Number 49: Aggregate Loan Limit for Federal Perkins Loans Exceeded

Middlesex Community College (College) exceeded the aggregate loan limit in its award of Federal Perkins Loans to one student. During the academic period between fall 2002 and spring 2005, the College awarded a student \$8,258 in Federal Perkins Loan (FPL) financial aid funds. The student graduated in spring 2005, and received FPL funds over three academic years. The College is an associate degree granting institution, which offers programs that can be completed over a two-year period, after which time a student can continue working toward a bachelor's degree at another college.

Federal regulation, 34 CFR 674.12, states that:

The aggregate loan maximums for the FPL program are: \$8,000 cumulative for a student who has not successfully completed two years of a program leading to a bachelor's degree, \$20,000 cumulative for a student who has successfully completed 2 years of a program leading to a bachelor's degree, but who has not completed the work necessary for the degree.

College officials stated that they do not consider the College to be a two-year institution because it takes longer than two years for many of their students to complete their course of study. Therefore, the College interpreted the above regulation as allowing a student \$4,000 per academic year, until such time as the student completes the program of study, regardless of how many years it takes to accomplish that goal, with the maximum of \$20,000 to be awarded. There is some uncertainty on our part if the College's interpretation meets the intent of the regulation. We believe that the intent of the regulation is to limit an \$8,000 maximum award for associate degree granting institutions, while allowing a maximum aggregate amount of \$20,000 toward the completion of a bachelor's degree.

We contacted the U.S. Department of Education to request clarification of this regulation, but at the time of the completion of our field work, we had not received a reply. However, on October 13, 2005, the U.S. Department of Education responded that the intent of the regulation is to limit the Perkins award to an aggregate maximum amount of \$8,000 regardless of how many years it takes the student to complete the program.

As this award exceeded federal limitations, the result is a higher debt for the student, as well as unavailable future funds if the student decides to transfer to another school to earn a bachelor's degree. Additionally, this affects the availability of FPL funds to other College students requiring financial aid. (*Department of Education- Federal Perkins Loan Program 84.038*)

Recommendation

The College should transfer the excess Perkins award back into its Perkins Fund Account. Additionally, the College should review all of its Federal Perkins Fund awards to determine if any additional accounts have been exceeded and return any additional excess awards to its Perkins Account. Finally, the College should incorporate aggregate loan limits into its written policies and procedures for the FPL program.

Department Corrective Action Plan

The student's Federal Perkins Loan has been corrected and the Perkins Fund Account is in the process of being restored. The College has reviewed all Federal Perkins Loan awards for fiscal years 2003, 2004 and 2005 and has found each recipient to be within the \$8,000 aggregate loan limit. The Financial Aid Department has incorporated the aggregate loan limit into its written policies and procedures.

Responsible Person: Vincent P. Funaro, Associate Dean of Enrollment Services

Implementation Date: Immediately

Institutions of Higher Education Middlesex Community College Findings on Compliance with Rules and Regulations

Finding Number 50: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund

Middlesex Community College (College) needs to expedite its processing of outstanding or returned checks. A review of the College's May 31 and June 30, 2005 bank reconciliations indicated old outstanding checks being carried as part of the reconciliations. We identified 365 checks totaling \$46,439 that had been outstanding for a period of 12 to 39 months. Of these checks, \$38,904 represented student refunds for financial aid (federal and/or state funds). The remaining balance of \$7,535 represented outstanding checks to College employees or vendors.

Chapter 29, Section 32 of the Massachusetts General Laws (MGL) requires that checks outstanding over one year be transferred to the Office of the State Treasurer (OST) Unpaid Check Fund (UCF) as follows:

Any check issued by the State Treasurer or by any agent or agency of the Commonwealth, other than checks issued in payment of obligations of the State Board of Retirement and the Teachers' Retirement Board, which is not presented for payment within one year from its date shall be payable only at the Office of the State Treasurer. On the thirtieth day of June in each year the Comptroller shall transfer to the abandoned property fund all funds which are identified by the State Treasurer as funds of the Commonwealth which have remained in the unclaimed check fund for at least one year.

College officials indicated that they did not transfer these funds to the OST's UCF because a decision was made to place these monies in what they considered to be an "Escheat Fund", titled Unclaimed Check Fund, maintained by the College. In this manner, the College officials explained that they could disburse the funds if and when they located the payee. College officials indicated that yearly transfers were made from the outstanding checklist to the College's Unclaimed Check fund.

The College provided us with documentation indicating that the balance in their Unclaimed Check Fund, as of June 30, 2005, totaled \$414,323 (including the \$46,439 listed above). This amount represented 2,407 checks dated from December 2, 1991 through June 30, 2004. In addition, included in this overall total were 178 checks totaling \$32,232, for which a date could not be determined, but were part of a check series that pre-dated 1991. Although we were able to verify the unclaimed check balance of \$414,323 to the College's reconciled general ledger, these outstanding checks should have been transferred to the OST's Unpaid Check Fund.

Once the College was made aware of MGL, Chapter 29, Section 32, they took steps to review their unclaimed check fund, determine if any payees could be located in order to reissue those checks and to finalize a transfer to the OST.

On September 9, 2005, the College prepared a check in the amount of \$393,661 payable to the Commonwealth of Massachusetts, to be transferred to the Office of the State Treasurer's Unpaid Check Fund. This check represented the balance of outstanding funds in their unclaimed check fund, as follows:

June 30, 2005 General Ledger Balance	\$414,323
Less: Employee checks to be re-issued (payroll and expense reimbursements)	<u>20,662</u>
Total of College's Unclaimed Check Fund to be transferred to OST	<u>\$393,661</u>

The retaining of outstanding or returned checks without timely disposition is not an efficient or economical use of College fiscal resources. Also, the rightful owners of these funds are not receiving funds they are entitled to. As of the end of our fieldwork, MCC had yet to submit the \$393,661 to the OST. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063*)

**Institutions of Higher Education
Middlesex Community College
Findings on Compliance with Rules and Regulations**

Finding Number 50: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund (Continued)

Recommendation

The College should immediately transfer the outstanding check funds totaling \$393,661 to the UCF. Additionally, the College should implement the necessary procedures that require the transferring of outstanding checks over one year old to the UCF within one year of its payable date, in accordance with Chapter 29, Section 32 of the MGLs. If the College has any questions regarding the transfer of outstanding checks to the UCF it should contact the OST.

Department Corrective Action Plan

The College transferred \$393,661 to the Office of the State Treasurer prior to the audit exit conference on October 20, 2005. The College will comply with the auditors' request in the future.

Responsible person: Richard Dery, Director of Financial Services

Implementation date: Immediately

Institutions of Higher Education Roxbury Community College Findings on Compliance with Rules and Regulations

Finding Number 51: Roxbury Community College Administration Improved

During the fiscal year 2005 Single Audit, the Roxbury Community College (College) continued to make significant progress in improving its administration over Student Financial Assistance (SFA) programs and all other financial areas.

Our follow-up audit disclosed that the College has taken corrective action and made significant progress on two prior audit findings. The College took corrective action by implementing policies, procedures and internal controls to ensure that bills at the Reggie Lewis Center and all other departments are being paid on a timely basis. The College continues to make improvements in the accounting, reporting and recording of non-appropriated funds.

The College made significant progress by improving upon its overall administration and fiscal operations previously reported in prior years' Single Audits and independent audits since 1997. The College is continuing to improve its Jenzabar financial operating system and has implemented many updated improvements throughout its entire financial operation.

The College has made improvements in its the overall financial administration, internal control plan, SFA programs and Jenzabar system as follows:

- The Internal Control Plan has been updated to include improved written procedures for all significant portions of its operations. Positive steps have been taken by the College's administration to improve its control environment, risk assessments, control activities, information and communication, and overall monitoring within its operations. The College began integrating improvements starting in September 2004 and continuing through April 2005 in updating its Internal Control Plan.
- Steps have been taken to ensure its administrative practices are reviewed annually and procedures are updated within each department. The College now holds individual department heads responsible for their department's compliance with College policies and procedures and conducts periodic meetings to this effect. The College is continuing to implement administrative improvements that were identified in its previous corrective action plan update.
- Improvement continues in the administration, documentation, and oversight of SFA programs. The overall improvement of SFA administration has been identified as a major priority for the College. Coordination and communication between the Admission's and Registrar's Offices in maintaining accurate and secure student files have significantly improved. The College has stated that this will remain a priority during the years to come.
- The College's Jenzabar system, although in place and working, was not providing sufficient assurance and output documentation necessary for consistent reliance of the College's financial records. The College staff relied heavily on other supporting documentation, such as, spreadsheets to summarize the type of data that should have been readily available from the Jenzabar system for reporting and verification purposes. The College acknowledged the shortfalls and continued to make improvements to the system throughout fiscal year 2005.

Institutions of Higher Education Roxbury Community College Findings on Compliance with Rules and Regulations

Finding Number 51: Roxbury Community College Administration Improved (Continued)

Our follow-up review disclosed that the Jenzabar system was significantly updated and functioned at an improved level in the latter part of fiscal year 2005. The College has been able to significantly improve its operating and control environment utilizing the system as follows:

- The General Ledger accounts were posted and updated in January 2005 to reflect much of the prior six months activity. The activity such as students accounts receivables, cash adjustments entries from monthly reconciliations and other adjusting data was recorded late because of the effort needed to correct prior year activity that had to be accomplished before the fiscal year 2005 activity was accurately posted.
- Student billing and accounts receivable information as well as other accounts were recorded into the Jenzabar system as planned starting in January 2005 and continued to do so through the end of fiscal year 2005. An improvement in segregation of duties and addressing previous problems and shortfalls in the area of student receivable collections was made with the hiring of a full-time Bursar in March 2005. This has allowed staff more time to address Jenzabar system recording issues that had previously affected the overall data integrity and programming issues.
- Financial reports were generated that were previously unavailable because of programming problems. Financial reports necessary for administrative fiscal monitoring were being generated from Jenzabar with accuracy starting in April 2005. College officials began using the reports during May 2005 in their day-to-day monitoring activities.

The College's independent audit firm issued a report of the College's financial statements for fiscal year 2004. The auditor's report identified conditions that continued from the fiscal year 2003 audit report. The report disclosed that the College did not have 1) a completely integrated general ledger system, 2) an accurate listing of student accounts receivable from its computer software system, and 3) adequate controls in remitting employee retirement withholdings to the appropriate administrator. The independent audit firm is currently auditing the College's fiscal year 2005 financial statements and following up on these conditions listed above. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063; Fiscal Year 2001; 2004 Single Audit Finding 62*)

Recommendation

The College should continue to implement improvements and monitor its Jenzabar system to ensure that the applications are performing as planned. Correction of prior years' audit results should be monitored to ensure that full corrective action is implemented and full resolution is achieved.

Department Corrective Action Plan

As the auditing team observed, the College has made a lot of progress with the use of the Jenzabar System. Our next leap in effectiveness will come with the installation of version 2.1. This version corrects a number of quirks that prevents the College from outputting some data to get ready to use results. For example, payments made after June 30th, but before August 31st, cannot be appropriately directed to the appropriate fiscal year. This is resolved in 2.1 version and will allow for queries or system reports that do not have to be reviewed closely for previous year postings. Posting tuition payments to a prior fiscal year will also be a feature of this new version. The reports that

**Institutions of Higher Education
Roxbury Community College
Findings on Compliance with Rules and Regulations**

Finding Number 51: Roxbury Community College Administration Improved (Continued)

Department Corrective Action Plan (Continued)

will be available surpass the capabilities of the previous version. Cost Center Manager Reports can be done as a system report instead of the custom report that was developed to accomplish the same result with the older version. General Ledger reports are also part of the system package that will also negate the need to maintain for refine custom reports for these summaries. In addition to the software upgrade, training will be offered on campus for the Business Office Staff this year. The training will be a refresh of the module for all staff as well as report generation for more senior staff. The combination of the upgraded version, training, and continued monitoring of the data within the system will assure a grater degree of effectiveness with the system.

Responsible Person: Chuks Okoli, Comptroller
Florence Craig, Accounting Manager
Implementation Date: February 2006

Institutions of Higher Education Findings not Repeated from Prior Years

1. Bridgewater State College (College) did not comply with regulations that require it to make at least two disbursements during a payment period in the Direct Student Loan Program. Our review of Direct Student Loan Program disbursements indicated the College has taken corrective action and was in compliance with program requirements for distribution of payments during the loan payment period. (*Fiscal Year 2004 Single Audit Finding 59*)
2. The Bridgewater State College (College) did not implement a quality assurance system required by the United States Department of Education (USDOE) to ensure the College is complying with program requirements in the Federal Direct Student Loan program. The College has taken corrective action whereby it maintains a file on quality assurance, is aware of the need for ongoing assessments and has developed improved management initiatives to address this need. The College further revised its policies and procedures to include a self-examination of existing practices to evaluate the efficiency and effectiveness of its financial aid programs. The College conducted the self-examination in February 2005, documented the results in its QA file and continues to monitor the assessment on an on-going basis. (*Fiscal Year 2004 Single Audit Finding 61*)
3. Bunker Hill Community College (College) needed to improve upon its practices and procedures in handling outstanding or returned checks. College policies did not comply with Chapter 29, Section 32 of the MGLs, which requires checks outstanding over one year old to be transferred to the Office of the State Treasurer's (OST) Unclaimed Check Fund or federal grantee. The College took corrective action and immediately began to transfer funds to the OST's Unclaimed Check Fund in accordance with Chapter 29, Section 32 of the Massachusetts General Laws. The College revised its internal control manual to include a procedure to address this issue. (*Fiscal Year 2004 Single Audit Finding 56*)
4. The College did not adhere to its own internal control practices in regard to distribution of Federal College Work-Study (FWS) checks to program participants. While the College's internal control policy required student identification when checks were picked up, the policy was not always complied with. The College took immediate steps to ensure that the College policy was adhered to regarding the distribution of FWS checks. Currently, the College is in compliance with FWS payroll distributions procedures and payroll distributions tested were found to be in compliance with stated policy. (*Fiscal Year 2004 Single Audit Finding 57*)